

IBM posts lower 1Q earnings amid hardware slump (Update)

April 16 2014, by Barbara Ortutay



This Tuesday, July 16, 2013, file photo, shows an IBM logo in Berlin, Vt. IBM reports quarterly financial results after the market close on Wednesday, April 16, 2014. (AP Photo/Toby Talbot, File)

IBM's first-quarter earnings fell and revenue came in below Wall Street's

expectations amid an ongoing decline in its hardware business, one that was exacerbated by weaker demand in China and emerging markets.

The world's largest technology services company has been working to expand into new areas as its hardware business falters, but the latest results show that these efforts have yet to fully pay off.

The company in the process of selling its low-end server business to China's Lenovo Group as it continues to shift its focus toward more lucrative software and services. It is also investing heavily in Internet-based computing services and in Watson, its cognitive computing operation made famous in beating a pair of "Jeopardy!" champions.

IBM Corp. said Wednesday that it earned \$2.38 billion, or \$2.29 per share, in the January-March period. That's down 21 percent from \$3.03 billion, or \$2.70 per share, a year earlier. Excluding an \$870 million charge for reorganizing its work force and other one-time items, IBM's earnings were \$2.54 per share in the latest quarter, matching analysts' expectations.

Revenue fell 4 percent to \$22.5 billion, below the \$22.9 billion that analysts polled by FactSet had expected. It's the eighth consecutive quarter of revenue decline. The biggest drop was in its systems and technology unit, or hardware, where revenue tumbled 23 percent to \$2.39 billion from \$3.11 billion.

IBM's stock fell 4 percent after the results came out.

"Hardware was a lot worse than I thought," said Daniel Morgan, a Synovus Trust portfolio manager who focuses on technology. He was expecting a 12 percent decline and said IBM is "really getting hurt" by the slowdown in China and emerging markets.

Software, on the other hand, performed better than he had expected. IBM said revenue in this business grew 2 percent to \$5.66 billion from \$5.57 billion. Morgan said he had expected a decline of less than 1 percent.

Revenue at its biggest segment, technology services, slipped 3 percent to \$9.33 billion.

"In the first quarter, we continued to take actions to transform parts of the business and to shift aggressively to our strategic growth areas including cloud, big data analytics, social, mobile and security," said CEO Ginni Rometty in a statement. ""As we move through 2014, we will begin to see the benefits from these actions."

IBM laid off an undisclosed number of workers in the past year, though it has also hired in other areas. It ended 2013 with 431,212 employees, down less than 1 percent from the end of 2012.

For the full year, IBM still expects adjusted earnings of at least \$18 per share. That's higher than estimates of \$17.88.

Shares of Armonk, New York-based IBM fell \$8.20 to \$188.20 in extended trading. Earlier, the stock had closed at \$196.40.

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