

Microsoft tanks 10 percent, hit by four downgrades on earnings

27 January 2015, by Brandon Bailey



In this Jan. 21, 2015 file photo, Microsoft CEO Satya Nadella speaks at an event demonstrating the new features of Windows 10 at the company's headquarters in Redmond, Wash. Microsoft reports quarterly financial results on Monday, Jan. 26, 2015. (AP Photo/Elaine Thompson, File)

Microsoft shares plunged more than 10 percent Tuesday after the software giant reported quarterly revenue that beat expectations but warned that a weak PC market and a strong dollar will curb growth this year. Many analysts slashed price targets on the stock and some cut their Buy ratings to Hold.

What are Wall Street's main concerns?

WHAT'S AHEAD

Microsoft showed promising signs of growth in new businesses, such as cloud computing, but Chief Financial Officer Amy Hood forecast revenue for the current period that missed analysts' expectations. Revenue for the quarter ending in March will be \$21 billion if the company hits the midpoint of its own forecast. Analysts had forecast \$23.8 billion, on average.

"The cloud transition remains on track, but lower numbers means a lower price target," analyst Ross MacMillan of RBC Capital Markets wrote to clients.

XP UPGRADES ARE OVER

Last year Microsoft stopped supporting its Windows XP software. That drove many consumers and businesses to upgrade their computers, giving a big boost to sales of newer Windows software. It seems that 'end-of-XP' jolt is over. Microsoft said Windows licensing revenue fell 13 percent in the December quarter, now that most businesses have finished replacing their old XP computers.

CHINA AND JAPAN MARKETS ARE WEAK

PC sales have been slumping worldwide, but Microsoft said Windows and Office revenue in China and Japan markets was particularly weak due to broader economic issues in those countries. That weakness is likely to continue this year, Evercore analyst Kirk Materne wrote in a report Tuesday.

STRONG DOLLAR

Microsoft said the strong dollar will trim [revenue](#) by 4 percent in the current quarter.

TRANSITION FAR FROM OVER

In less than a year, CEO Satya Nadella has made big strides in expanding Microsoft's focus from PCs to the growing variety of gadgets, including smartphones and tablets, that people use to go online. The quarter showed major gains in sales of [cloud-computing](#) software, Surface tablets and Lumia smartphones. But Tuesday's stock slump shows investors' honeymoon with Nadella may be over.

"He is a very skilled executive," Cowen analyst Gregg Moskowitz said of Nadella, in a note

Tuesday. "Still, the big question remains whether Mr. Nadella can effect enough positive change over time."

Microsoft shares fell \$3.98, or 8.5 percent, to \$43.03 in afternoon trading on four times average daily volume, and tumbled as low as \$42.11 earlier in the session. The stock was on a run-up for much of 2014, peaking at \$50.05, but has slipped since the start of the year.

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