



IBM Gains After Palmisano's Forecast Defies Slowdown (Update3)

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By Melita Marie Garza



April 17 (Bloomberg) -- **International Business Machines Corp.** rose in New York trading after saying 2008 profit will top its previous projections, signaling that the computer-services company will resist the U.S. economic slowdown.

Full-year **profit** will climb to at least \$8.50 a share, IBM said yesterday, higher than a February prediction of \$8.25. Analysts on average projected earnings of \$8.26, according to a Bloomberg survey.

IBM followed **Intel Corp.** in forecasting results that exceeded projections, defying Goldman Sachs Group Inc.'s prediction this week that U.S. companies would cut earnings targets after an ``awful" start.

IBM's overseas sales, which account for almost two-thirds of total revenue, helped Chief Executive Officer **Samuel Palmisano** buck the trend in the first quarter.

``People like the big brands better in a troubling period, and this is a troubling period," Enderle Group President **Rob Enderle** said yesterday in an interview with Bloomberg Radio. Enderle, based in San Jose, California, called the company's first-quarter profit of \$1.65 a share ``stunning."

Brokerage firms including Goldman, Citigroup Inc. and Morgan Stanley raised their estimates for IBM's stock performance after the results. **IBM** climbed \$2.61, or 2.2 percent, to \$123.08 at 4 p.m. in New York Stock Exchange composite trading.

Currency Rates

The declining U.S. dollar helped boost the value of sales from overseas, where IBM gets about two-thirds of its revenue. The currency fell 7.6 percent against the euro during the quarter. Adjusting for that, revenue from Europe, Africa and the Middle East rose 4 percent, while the Asia-Pacific region posted a 3 percent increase.

Palmisano said yesterday that the underlying business, rather than favorable currency rates, would let the company make its annual profit goal.

U.S. sales rose 6 percent in the first quarter, triple the pace of the previous period. IBM Chief Financial Officer **Mark Loughridge** said companies in the insurance, banking and telecommunications markets all helped bolster U.S. orders.

``U.S. companies are not reducing expenditures on technology, and that's surprising given the gloom and doom," **Carl Claunch**, a Los Altos, California-based analyst with research firm Gartner Inc., said in a telephone interview. ``Even sales to the financial-services sector went up."

Net income climbed 26 percent to \$2.32 billion from \$1.84 billion, or \$1.21 a share, a year earlier, IBM said yesterday. Sales rose 11 percent to \$24.5 billion, beating the average projection of \$23.6 billion.

Overseas Orders

Without adjusting for currency rates, sales in Europe, the Middle East and Africa surged 16 percent. **IBM** won contracts with companies such as Transalliance, a French freight hauler. Asia-Pacific revenue climbed 14 percent.

Sales in IBM's technology-services unit, which manages computer systems and data centers for corporate clients, climbed 17 percent to \$9.68 billion. **Revenue** from software advanced 14 percent to \$4.85 billion.

Hardware revenue fell 6.7 percent to \$4.22 billion. IBM has shed hardware businesses such as its personal-computer and printing units in the past three years to stem slowing growth.

Hardware

``The hardware unit is much less important to them than it was five or 10 years ago, amounting to about 20 percent of the business," **Walter Todd**, a portfolio manager with Greenwood Capital Associates, said today in an interview on Bloomberg Television.

IBM shares make up 5 percent of Columbia, South Carolina- based Greenwood Capital's holdings, Todd said.

IBM has cut its dependence on U.S. clients by expanding in faster-growing countries such as Brazil, Russia and China, where sales climbed 26 percent last year. In December, Palmisano said IBM will spend an extra \$1.6 billion on sales and marketing in those areas through 2010.

Companies may increase spending on technology by 6 percent this year in Asia and 3.9 percent in Europe, compared with 2.3 percent for their American counterparts, according to Gartner. Economists on average estimate that U.S. economic growth slowed to 0.1 percent in the first quarter, one-sixth the pace of the previous period.

Palmisano, 56, has sought to fuel growth at IBM by wooing customers for software, its most profitable **business**. That unit's gross margin, or the percentage of sales left after production costs, amounted to 85 percent last year, more than double the rate of IBM's largest division, the services business.

Fueling Growth

IBM also has pursued billions of dollars in stock buybacks to add to per-share earnings. On Feb. 26, Palmisano announced plans to **buy back** \$12 billion in stock this year. Yesterday, the company said the buybacks helped add 13 cents a share to first- quarter profit.

``They are doing what other big-cap companies should be doing," Stephen Goddard, portfolio manager for the AFBA 5Star Balanced Fund said today on Bloomberg Radio. ``They are taking an unlevered balance sheet and aggressively buying back shares."

It's almost like the company is going private gradually, he said, ``sucking up 5 percent, 10 percent of their shares every year."

Goddard said slower U.S. growth will compel other companies to follow IBM's lead in making share buybacks and offering higher dividends to enhance shareholder returns.

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