

Palm cuts revenue outlook on weak phone sales

(Reuters) - Palm Inc slashed its revenue targets on weak demand for its smartphones, renewing concerns about its ability to compete against rivals like Apple Inc and sending shares down 16 percent.

The warning came only weeks after Verizon Wireless began to sell Palm's Pre and Pixi phones, suggesting that the addition of the top U.S. mobile service as a sales partner was not helping Palm as much as had been hoped.

Analysts said the news means Palm may now be less likely to find a buyer. The company, run by former Apple executives, has often been rumored as a potential acquisition target for the likes of Nokia, Dell Inc, Microsoft Corp and Research in Motion Ltd.

Palm's warning followed downgrades earlier this week from at least two brokerages; but analysts said the new forecasts were even weaker than their already low expectations.

"With the U.S. market being Palm's best opportunity for more levered growth, we are more concerned with the future growth opportunity," said UBS analyst Maynard Um, adding that Palm may start to offer aggressive discounts to spur sales.

Palm forecast revenue of \$300 million to \$320 million, including deferred revenue, for its fiscal third quarter ending this month. That was well below the average analyst estimate of \$424.7 million, according to Thomson Reuters I/B/E/S.

It also said full-year revenue would be "well below" its previous target of \$1.6 billion to \$1.8 billion. Wall Street was expecting \$1.6 billion.

Um said Palm will likely report as few as 750,000 phone sales in the quarter, which would be 25 percent less than his earlier expectation for 1 million units.

The company blamed slower-than-expected consumer adoption of its products, leading to weaker-than-expected orders from operators and the deferral of orders to future periods.

Palm Chief Executive Jon Rubinstein said the company was working closely with carrier partners to increase awareness of its products and drive sales.

"However, driving broad consumer adoption of Palm products is taking longer than we anticipated," the executive said in a statement announcing the revenue outlook.

VERIZON'S MARKETING

Investors had had high hopes for Palm's deal with Verizon, which expands its sales

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channel beyond Sprint Nextel Corp, the No. 3 U.S. mobile service.

But some analysts said Verizon Wireless did not advertise the Palm phones well, instead featuring the Droid phone from Motorola Inc.

"Verizon has puzzlingly refrained from providing the marketing muscle behind the products that we had expected," Morgan Stanley analyst Ehud Gelblum said in a research note.

Verizon Wireless, a venture of Verizon Communications Inc and Vodafone Group Plc, said that Palm phones were the focus of its Valentine's Day advertising and that it continues to promote the phone in TV, print and online. It declined to comment on future advertising plans.

Palm is betting on its new webOS software to help its phones compete more effectively against rivals such as Apple's iPhone and the BlackBerry from Research in Motion.

CL King analyst Lawrence Harris said that while weak advertising at both Verizon and Sprint had hurt sales, he saw a deeper problem with the phones themselves.

"The devices have small keyboards and small screens while the world is moving toward larger displays," Harris said.

AT&T Inc, the No. 2 U.S. mobile provider, said in January that it would sell two Palm phones in the first half of this year. Harris said today's news might affect that plan.

"These carriers watch each other very closely and try to get the hottest, slickest devices. If they see the sales are slow at Verizon, it could affect AT&T's initial order levels," he said.

An AT&T spokesman said its Palm announcement stands but declined to comment further.

The Pre, the first phone based on Palm's webOS software, was greeted with enthusiastic applause at the Consumer Electronics Show in January 2009, where it was the highlight of the show. But sales did not live up to the hype after a high-profile launch last summer.

The device was hurt by initial supply constraints and stiff competition, and some analysts had worried that sales at Sprint were cut by the announcement last summer that Verizon Wireless would sell the Pre this year.

Palm shares fell \$1.30 to \$6.79 in busy trade on Nasdaq. The shares have halved in value since mid-January, after investors were disappointed by Palm's lack of a substantial new product at the CES show.

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