Apple warns of holiday earnings drop

PETER SVENSSON - AP Technology Writer - Associated Press

Apple has a new iPhone, two new iPads and three new PCs as it heads into the holiday quarter, the biggest selling season of the year. But, paradoxically, it expects these new gadgets to bring down its profits compared to last year.

The reason: the new gadgets are expensive to make, Apple executives said Thursday, and the company is not interested in cutting corners for the sake of short-term returns.

On top of the holiday-quarter warning, the company reported earnings for its just-ended quarter that missed Wall Street's expectations for the second quarter in a row — something that hasn't happened in more than a decade.

In part, the issues facing Apple are a normal consequence of having so many new products, said Chief Financial Officer Peter Oppenheimer. When a production line is new, it costs more to run and the components are more expensive.

"The difference this time is the sheer number of products we're introducing at a short time," Oppenheimer told analysts on a call Thursday.

But Oppenheimer also singled out the iPad Mini, the new, smaller version of the iPad the company unveiled Tuesday. It starts at $329, well above the $199 competitors charge for similar products. Apple's price is "aggressive," with a margin well below its other products, Oppenheimer said.

"When we set out to build the iPad Mini, we didn't set out to build a small, cheap tablet, we set out to build a smaller iPad that offered the full iPad experience" Oppenheimer said.

Apple expects a gross profit margin of 36 percent in the current quarter, the lowest figure in at least four years. In the holiday quarter last year, its gross margin was 44.7 percent.

The gross margin represents what Apple gets from selling its products, minus the cost of making them. It ignores the cost of research and development, marketing and corporate overhead.

On the same call, CEO Tim Cook justified the projected profit drop to Wall Street in similar terms.

"We're unwilling to cut corners in delivering the best product experience in the world," he said. "We're managing the company for the long run."

Apple launched the iPhone 5 a month ago. This week, it unveiled the iPad Mini and

an upgraded full-size iPad, plus a new MacBook laptop and two desktop Macs.

Apple said it expects earnings of $11.75 per share in the holiday quarter, below the $13.87 per share it earned in the same period last year. Apple routinely lowballs its estimates, but this time the forecast was further from the analyst estimate than usual. Analysts polled by FactSet were expecting earnings of $15.59, on average.

Apple expects sales of $52 billion, roughly in line with the analyst expectation of $56 billion, considering the company's conservative forecasts.

Apple shares fell $6.33, or 1 percent, to $603.47, extending a downward trend for the stock, which hit an all-time high of $705.07 a month ago, on the day the iPhone 5 went on sale in the U.S. and eight countries.

Apple reported its results as Microsoft Corp. was set to launch Windows 8 on Friday, along with its first tablet computer, the Surface. Cook said that while he had not used the Surface himself, he gathered from reviews that it was a "fairly compromised, confusing product" that tries to do too many things. Part of Microsoft's message is that the Surface will double as a laptop. It's including a full version of its Office suite on the product and will be selling covers that act as keyboards.

"I suppose you could design a car that flies and floats, but I don't think it would do all of those things very well," Cook said.

A slowdown in the growth of iPad sales was a major contributor to earnings miss for the latest quarter. It wasn't completely unexpected, as the rumor mill correctly predicted that Apple would launch the iPad Mini. Cook said there's usually a slowdown in the September-ending quarter, and the 14 million iPads sold exceeded Apple's forecast. Analysts, however, had been expecting 17 million to 18 million.

Sales were also hurt by slowing growth in China, after some blockbuster years. Apple's sales in China more than doubled in fiscal 2010 and 2011, but in the latest quarter, the Asia-Pacific segment grew just 15 percent, year over year. Growth in the July-September quarter was also slow in economically troubled Europe.

Net income in the fiscal fourth quarter was $8.2 billion, or $8.67 per share. That was up 24 percent from $6.6 billion, or $7.05 per share, a year ago.

Analysts polled by FactSet were expecting earnings of $8.84 per share.

Revenue was $36 billion, up 27 percent from a year ago. Analysts were expecting $35.8 billion.

The Cupertino, Calif., company sold 26.9 million iPhones in the quarter, at the high end of expectations. The launch of iPhone 5 came late in the quarter and didn't move the needle much.

For the full fiscal year, Apple's net income was $41.7 billion, or $27.68 per share.

That was up 61 percent from the year before. Revenue was $156.5 billion, up 46 percent.

Source URL (retrieved on *12/13/2013 - 5:40pm*):
http://www.ecnmag.com/news/2012/10/apple-warns-holiday-earnings-drop?qt-most_popular=0