

VMware earnings tumble, but sales show small gain

Oct. 21, 2009, 6:03 p.m. EDT

By Rex Crum, MarketWatch

SAN FRANCISCO (MarketWatch) --VMware Inc. on Wednesday reported a 54% decline in its third-quarter earnings, but recorded an increase in sales. The virtualization-software developer also forecast better-than-expected revenue in its current business period.

VMware (VMW 44.83, -0.10, -0.22%) said it earned \$38 million, or 9 cents a share, compared with a profit of \$83 million, or 21 cents a share, during the same period a year ago. Revenue rose 4% to \$490 million from last-year's sales of \$472 million.

Excluding one-time items, VMware would have earned \$95 million, or 24 cents a share. Analysts surveyed by FactSet Research had forecast the company to earn 20 cents a share on \$473 million in revenue.

VMware said that services revenue rose 33% from a year ago to \$250 million, while sales of software licenses fell almost 16% to \$240.2 million.

Unni Narayanan, president of Primary Global Research, said the fact that VMware was growing its sales, but saw license revenue decline, is a possible red flag due to the state of the virtualization market.

"This is critical, because we believe the virtualization market is becoming increasingly price sensitive because of increased [small-and medium-sized business] customers in the mix," Narayanan said. "Additionally, enhancements in hardware mean that greater performance can be achieved through fewer VMW licenses. This will ultimately place pressure on VMW's gross margins down the road."

For its current, fiscal fourth-quarter, VMware expects sales of between \$540 million and \$560 million, and its first-quarter revenue will decline from its fourth-quarter results. The company didn't immediately give an earnings outlook.

Analysts have forecast VMware to earn 25 cents a share, excluding one-time items, or \$523 million in sales for its fourth quarter.

VMware shares rose as much as 2% to \$45.90 in after-hours trading.

Rex Crum is a reporter for MarketWatch in San Francisco.