

INSTANT VIEW: Microsoft revenue misses, shares sink

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LOS ANGELES/SAN FRANCISCO (Reuters) - Microsoft Corp posted a steeper-than-expected 17 percent drop in quarterly revenue and said its business continued to be hurt by the weak global PC and server markets, sending its shares down 8 percent and hurting broader stock futures.

COMMENTARY:

PETER MISEK, ANALYST, CANACCORD ADAMS

"The common theme on the technology reports, excluding Apple, was that revenues were either light or down double digits from last year and that companies were able to show really strong profits from cost cutting.

"What Microsoft is showing you is that the revenue story, of weakness and consumers holding back, is consistent. I know everyone was surprised by how strong Intel's results were, us included, but Intel sells chips to any laptop, any PC maker, so whether it's a netbook or desktop they sell it.

"Whereas for Microsoft, if it's a netbook they get a lower amount. They're getting hurt by the emergence of netbooks and the emergence from new competition from netbooks, Apple, Android on phones, Chrome and others.

"Investors were and are playing this for a Windows 7 upgrade cycle. The problem is, we haven't seen that and this quarter isn't going to give us any indication of that. We won't be able to see that till Windows 7 launches in October, and the soonest point you would have a read on it would be in January."

YUN KIM, ANALYST, BROADPOINT AMTECH

"Nothing really showed much of an improvement from the last couple of quarters. The core focus here is really in the Windows business, and they definitely didn't see their business improve from the weakness in the overall PC market, despite some positive chatter from Intel.

"There was some hope that their business might show some improvement, but it didn't show that.

"The weakness came from obviously the Windows business and also on the enterprise side of the business. And also the Xbox, which is a huge revenue contributor but not a big margin contributor, there was definitely a big dropoff on Xbox consoles on the revenue side.

"The main story here is their operating expense guidance for next year. They guided for it to be up slightly. I think people were expecting that to be down. So that's what's really touching off the weakness right now. People would have looked past Q4 numbers if they simply guided op ex down for next year.

"A lot of people thought that Microsoft could basically manage their expense, their margins, very carefully, such that they'd be able to weather any kind of weakness or volatility in their revenue."

STEPHEN MASSOCCA, MANAGING DIRECTOR, WEDBUSH MORGAN

"Microsoft's revenue was really light, on the very bottom line. We expect an upgrade to come along, but things are very uncertain at this point. I think from now on, we are left with little room for disappointments."

SID PARAKH, ANALYST, MCADAMS WRIGHT RAGEN

"Clearly not to our expectations, it was very disappointing.

"The results from most of the electronics supply chain were really good, especially if you look at Intel. That would have implied that the results should have looked better, but it clearly did not.

"The operating expenses was actually a little better than we were expecting. One of the things that was evident even in the results is that cost controls was pretty good.

"The big question is with revenues and what's happening. Clearly enterprise spending is still weak. If you compare numbers to our model, they're in line but they miss on the server side and the Microsoft business division."

LAXMI PORURI, PARTNER, PRIMARY GLOBAL RESEARCH

"Spending has been sparse by businesses and we're not in full recovery mode yet. We're not in big-ticket mode, which is businesses purchasing a lot of equipment and a lot of software. They're doing small projects and that's going to hurt your margins.

"There is a lot of uncertainty. When you have a product and a recent history of an operating system that didn't work, which is Vista, and you have a new one coming up, you're not going to jump on the bandwagon straight away, especially in an environment when your spending is going to be scrutinized.

"So what we're going to see is a little lull in terms of people waiting to see if the first version (of Windows 7) has bugs."

KIM CAUGHEY, SENIOR ANALYST, FORT PITT CAPITAL GROUP

"They were really light on revenue. I hope they'll highlight that on the call, give more clarity. I would hope in the call they're going to tell us where the dollars are.

"They need to explain where the money went. If I was Nancy Drew this would be the case of the missing revenue.

"Servers and tools were down \$200 million year over year, that's not hugely surprising. Companies aren't exactly going out there and buying new servers.

"That being said, I think the company's strong cost controls paid off for it. Microsoft hasn't really been known as somebody that has very tight cost controls."

TOAN TRAN, ANALYST, MORNINGSTAR

"It looked like a pretty tough quarter for Microsoft. The topline was very weak, excluding the revenue deferral for Windows 7.

"The operating expense outlook was in line with our expectations. Microsoft is very much in touch with in-demand, meaning there's not a lot inventory of software.

"So the reports you saw from Intel benefiting from inventory replenishment in the supply chain, but Microsoft is still very much in touch with in-demand. It's not different from anything else we're seeing from other PC makers, in that demand remains weak."

(Reporting by Yinka Adegoke, Edward Krudy and Angela Moon in New York and Alexei Oreskovic in San Francisco; Compiled by Edwin Chan)