Apple reports lower profit, tops targets

Apple Inc. reported a small gain in sales along with another earnings decline for its fiscal fourth quarter on Monday afternoon, though iPhone sales managed to be at Wall Street’s targets. MarketWatch's Dan Gallagher reports.

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Apple profits slip again despite iPhone launch - MarketWatch

Results beat Street targets, but shares down following big run up

By Dan Gallagher, MarketWatch

SAN FRANCISCO (MarketWatch) — Apple Inc. reported its third consecutive quarter of earnings declines on Monday afternoon, though a pop in iPhone sales with the launch of new devices helped revenues come in higher than Wall Street had expected for the company’s fourth fiscal quarter.

Investors still took a mixed reaction to the news, with Apple’s (NASDAQ:AAPL) shares slipping about 0.8% in after-hours trades following the report and the company’s conference call to discuss the results. Apple’s shares have been on a run, jumping more than 25% in the last three months and closing Monday’s regular session up 0.7% to $529.88.

The main culprit in the reaction was Apple’s gross margin forecast for the current quarter. The midpoint of the guidance range — 37% — would be below the 38.6% that Apple reported in last year’s December quarter which had very similar product dynamics with a new iPhone model and new versions of the iPad and Mac computer lineup.

Apple says it still has a large backlog of orders for the iPhone 5S to work through. That device launched in the last week of the recent quarter.

The December quarter also includes the crucial holiday shopping season — and the launch of the new iPad Air and other products. Apple predicted revenue in a range of $55 billion to $58 billion. Wall Street had been expecting revenue of $55.5 billion for the period, according to FactSet.

“The main question is: Are they making progress towards getting back to earnings growth?” Walter Piecyk of BTIG Research told MarketWatch. He added that if Apple comes in at the high end of their guided range for the December quarter, “they’ll report their first earnings growth in a year.”

For the period ended Sept. 28, Apple said net income totaled $7.5 billion, or $8.26 per share, compared with net income of $8.2 billion, or $8.67 per share, for the same period last year.

Revenue grew 4% to $37.5 billion. Gross margin came in at 37% for the period.

Analysts were expecting earnings of $7.92 per share with revenue of $36.8 billion for the period, according to consensus estimates from FactSet.

On the call, the company noted that it is taking a higher amount of deferred revenue on its iPhones, iPads and Macs — given all the new software that is being made available for free with the devices, that amounts to about an additional $5 in deferred revenue for each iPhone and iPad sold, or about $900 million for the December quarter beyond what the company had already budgeted.

Peter Oppenheimer, Apple’s chief financial officer, confirmed that the midpoint of the company’s gross margin guidance for the period would be closer to 38% if not for the additional deferred revenue — flat with the same period last year.
Manjoo: Apple should ignore Icahn

Carl Icahn is wrong to ask Apple to use its cash pile on a stock buyback, says WSJ columnist Farhad Manjoo. That money is better spent on improving Apple products and services to ensure it remains competitive.

first part of the new calendar year.”

Apple said it shipped 33.8 million iPhones during the quarter. Analysts were expecting shipments of about 32 million units. The iPhone 5S and 5C launched in the last week of the quarter, and Apple said previously that it shipped 9 million units of the two new devices over the launch weekend.

Total iPad shipments for the period were 14.1 million — slightly below the 14.5 million units shipped in the same period last year. Apple unveiled the iPad Air and new iPad mini with a “retina” display last week, with the new tablets going on sale in November.

Apple said it generated about $9.9 billion in cash from operations and returned about $7.8 billion to shareholders through dividends and buybacks during the quarter. The company ended the period with about $146.8 billion in cash, short-term equivalents and long-term investments.

Carl Icahn, the billionaire investor activist, has been pressuring Apple to dramatically step up its buybacks — to about $150 billion. On Monday’s call, Tim Cook said Apple’s board reviews its cash return program on a regular basis, and “we will announce any changes to our current program in the