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Macs make up biggest slice of Apple's sweet quarter

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While many consumers identify Apple with its sexier side - iPods and iPhones - it's the company's more established business, computers, that is really paying the bills.

In spite of the economic slowdown, consumers continued to snatch up Macintoshes and helped the company record a 36 percent rise in second-quarter profit, it reported Wednesday.

For the quarter ended March 29, Apple sold 2.29 million laptops and desktops, a 51 percent jump from the year-earlier quarter. That helped Apple report a profit of \$1.16 a share on sales of \$7.51 billion.

The market for Apple's iPods, on the other hand, has rapidly matured. In its second quarter of 2006, Apple sold 8.5 million iPods, which was up 61 percent from the same period a year earlier. In its most recent quarter, by contrast, Apple sold 10.6 million iPods, which was up less than 1 percent from the same period a year earlier.

Analysts polled by Thomson First Call were expecting Apple to earn \$1.07 a share on sales of \$6.96 billion. In January, Apple predicted a profit for the period of 94 cents a share on sales of \$6.8 billion.

The latest financial results underscored how Apple's core PC business continues to be a financial engine for the Cupertino company. For the quarter, Mac sales surged 3 1/2 times the overall market for PCs.

"It defies the laws of physics," said Piper Jaffray analyst Gene Munster. "It's a function of this whole concept of when people buy Macs, they force their friends to buy Macs."

Globally, Apple sold 7.8 million desktop and notebook computers, capturing 3 percent of the market last year, according to research firm IDC. Worldwide, the company experienced a 38 percent growth rate, which was more than double the industry average.

In the United States, Apple sold 4.2 million units, which was 6 percent of the market. That was a 34 percent increase from 2006 and five times the industry average.

"What always gets lost - because everything is focused on iPhones, iPods, iPills, whatever - is Mac sales," said Scott Rothbort, president of LakeView Asset Management, which is a longtime owner of Apple shares. "Mac sales, Mac sales, Mac sales - that is the story of this company. The Macintosh is capturing more and more market share."

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Mac sales were \$3.49 billion, a 54 percent jump from the same period last year. Revenue from the company's iPod business increased 7.6 percent to \$1.81 billion.

"The iPod is not the story," Munster added. "The portable music player market just isn't growing a lot."

The company also said it sold 1.7 million iPhones for the quarter, bringing the total sales of the device to just under 6 million. Apple said it still expects to sell 10 million iPhones this year.

About 200,000 developers have downloaded newly released iPhone software tools that will allow them to create new applications for the device, an indication of its growing popularity, said Apple Chief Financial Officer Peter Oppenheimer. And one-third of Fortune 500 companies have contacted Apple about the program, he added.

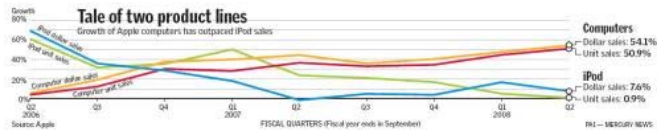
In early March, Apple said it was updating iPhone software to allow it to receive so-called push mail from Microsoft Exchange servers, putting the popular gadget in direct competition with the BlackBerry and Palm Treo.

Oppenheimer said the company expects revenue of \$7.2 billion and a profit of \$1 a share for the current quarter.

Investors appeared somewhat disappointed. Apple's shares closed regular trading at \$162.89, up \$2.69 or 1.7 percent, but initially fell 3.4 percent in trading after earnings were released,

to \$157.33. It later rebounded to \$162.31.

"I think people were surprised they were not



able to expand margins more," American Technology Research analyst Shaw Wu said. "Maybe suppliers are not giving them sweetheart deals."

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