FINANCIAL TIMES

December 20, 2011 10:19 pm

Oracle's earnings miss chills tech stocks

By Richard Waters in San Francisco

A chill fell across information technology stocks after Oracle reported an unexpected slowdown in sales growth in its latest quarter and earnings that fell short of forecasts.

The world's second-biggest software company after Microsoft, Oracle had previously proved one of the most resilient tech companies amid the recent financial crisis and ensuing economic headwinds.

However, news on Tuesday that its revenues had grown by only 2 per cent to $8.8bn, compared to the 7 per cent growth that had been expected in the three months to the end of November, wiped more than 9 per cent from its share price in after-market trading.

The sales weakness was caused by delays in finalising big purchases late in the quarter, said Safra Catz, Oracle co-president. This reflected changes by some companies in the way they approve big new tech purchases, leaving the final decision with their chief executive officers, she added.

In the past, requiring more senior approval on purchases has often reflected growing caution on the part of customers and foreshadowed a broader sales slowdown in the tech sector. However, Ms Catz and other Oracle executives described the impact as temporary and said that tighter management of the sales process, along with the addition of 1,700 extra sales staff, would see the company bounce back.

Despite the show of confidence, the maker of database and business application software also issued a cautious forecast for its current quarter, predicting that revenues would increase by 2-5 per cent from a year before, compared to the 8 per cent analysts had been expecting. Pro-forma earnings per share are likely to reach 55-58 cents, it added, compared to the 59 cents expected by Wall Street.

As the first of the big tech concerns to report earnings and a bellwether for tech spending by big companies and governments, Oracle's results were seen as a sign that falling confidence had eaten into tech spending at what is traditionally the strongest period of the year for IT suppliers.

The sales weakness was reflected in growth of only 2 per cent in new software licences, compared to the 6-16 per cent that the company itself had predicted three months before. New software licences are seen as a key indicator of underlying business health, since the company's future maintenance revenues are closely tied to the level of new sales.

The company's hardware division also registered another decline in sales, reflecting growing pressure on a business that Oracle assumed with its acquisition of Sun Microsystems a year ago. Sales fell by 14 per cent to $953m.

On the pro forma basis on which Wall Street judges the company, Oracle reported net income of $2.8bn, or 54 cents a share, compared to the 57 cents analysts had expected. Based on formal accounting rules, net income rose by 17 per cent to $2.2bn, or 43 cents a share.