

# Dell fiscal 1Q net income jumps 52 percent

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In this March 1, 2007, file photo, Dell laptops are seen in North Andover, Mass. Computer maker Dell Inc. releases quarterly financial results Wednesday, May 19, 2010, after the market close. (AP Photo/Elise Amendola, File)

(AP) -- Computer maker Dell Inc. said Thursday its first-quarter net income rose 52 percent, helped by sales of computers to businesses and technology services to public-sector customers.

But Dell's gross profit margin dropped from a year ago, and the company said certain PC components are likely to remain in short supply. Investors sent shares down in extended trading.

For the February-through-April quarter, Dell's net income rose to \$441 million, or 22 cents per share, from \$290 million, or 15 cents per share in the same period last year.

Excluding certain items, Dell said earnings totaled 30 cents per share, three cents more than Wall Street analysts were expecting, according to a Thomson Reuters survey.

Dell's revenue rose 21 percent to \$14.9 billion, more than the \$14.3 billion analysts expected.

The majority of Dell's business comes from selling computers and other hardware to companies and large organizations. It also has a smaller technology services division, expanded with a \$3.9 billion acquisition of Perot Systems last year.

Dell and much of the technology industry fared poorly during the worst of the recession, when businesses stopped spending to upgrade their systems and consumers flocked to the least expensive, and least profitable, PCs.

Dell's report Thursday echoed what its larger competitor, Hewlett-Packard Co., said Tuesday, and what industry research groups published in April: Corporations were replacing aging servers and other behind-the-scenes technology first, and were starting to buy new PCs for employees.

Dell said revenue from large business customers jumped 25 percent to \$4.2 billion in the latest quarter. Revenue from small and medium businesses increased 19 percent to \$3.5 billion.

Brian Gladden, Dell's chief financial officer, said during a conference call that companies' desire to upgrade employee computers to Microsoft Corp.'s latest operating system, Windows 7, will fuel sales of new Dell computers, since less than 5 percent of Dell's customers have upgraded so far.

Dell's public-sector business also grew, helped by Perot, which provides

technology services for hospitals, the U.S. military and others.

Researchers from IDC and Gartner Inc. saw consumers flocking to inexpensive laptops during the quarter, as well as desktops where the guts of the computer are stashed in the monitor. Dell said its consumer business grew 16 percent in the quarter to \$3.2 billion in revenue.

Morningstar Inc. analyst Michael Holt recommended taking growth rates with a grain of salt.

"This point last year was a very difficult time across the industry," Holt said. He was more focused on Dell's profitability, which didn't improve even though revenue jumped. That's because despite efforts to grow in services and other areas, Dell is still almost entirely a PC company. As PC prices dropped and component prices rose, Dell's profitability was hit hard.

Dell's gross profit margin - the percentage of revenue left after subtracting the cost of making products - was 16.9 percent, down from 17.6 percent at the same time last year. Dell cited higher prices for memory, LCD screens and other components, and more PC sales to consumers and in Asia, which are less profitable than Dell's corporate business in the West.

Dell, which is based in Round Rock, Texas, didn't give guidance for the current quarter, except to say it expects revenue to rise only slightly from the first quarter. The company said businesses, especially those in Europe, don't buy a lot of technology during the summer months, but Dell will get a boost from selling to educational institutions.

Dell is the world's third-largest PC maker behind Hewlett-Packard Co. and Taiwan's Acer Inc.

Its earnings report came out after Dell stock fell 66 cents, 4.4 percent, to close at \$14.32. In extended trading the shares fell 39 cents, 2.7 percent, to \$13.93.

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