

# Dell profit jumps as computer maker cuts costs

May 17 2011, By RACHEL METZ , AP Technology Writer

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(AP) -- Dell Inc. said Tuesday that its net income for the latest quarter nearly tripled as the personal computer maker benefited from lower computer component costs and growth in some of its more profitable product lines.

Shares of Dell, which beat analysts' adjusted net income estimates but came in a bit below revenue estimates, rose 5 percent in extended trading.

For the three months that ended April 29, Dell earned \$945 million, or 49 cents per share, compared with \$341 million, or 17 cents per share, a year earlier.

Excluding one-time items, Dell earned 55 cents per share, easily beating what Wall Street expected. Analysts polled by FactSet forecast adjusted earnings of 43 cents per share.

Revenue rose just 1 percent to \$15.02 billion from \$14.9 billion last year, missing analyst estimates for \$15.4 billion. Product revenue remained flat at \$12.1 billion, while services revenue climbed 6 percent to \$3.0 billion.

In Dell's consumer segment, which makes up about 20 percent of its revenue and so is much smaller than the portion of its revenue that comes from sales to businesses, dropped 7 percent to \$3.0 billion.

Consumer demand fell more than Dell anticipated and, in an interview, Chief Financial Officer Brian Gladden attributed some of this to the market for consumer PCs being saturated in developed countries. He added that while tablet computers are still a small portion of the PC market, there's "clearly an impact" from them on consumer demand for traditional PCs.

Revenue from large enterprises climbed 5 percent to \$4.5 billion, while revenue from small and medium-size businesses increased 7 percent to \$3.8 billion. Public sector revenue declined 2 percent to \$3.8 billion.

By product category, the company saw the biggest gain in servers and networking, where revenue rose 11 percent to \$2.0 billion. Sales of desktop PCs fell 8 percent to \$3.3 billion, while mobile PCs rose 3 percent to \$4.7 billion.

Dell has been working to increase the proportion of server computers, data storage devices and technology consulting services it sells, because those areas are more profitable than the company's basic PC business. Compared with a year ago, however, most of Dell's product categories accounted for about the same percentage of revenue, and computers for consumers and businesses continued to make up more than half of Dell's revenue.

Still, Dell's gross margin, an indicator of how efficient Dell's business is, came in at 22.9 percent, higher than the 20.4 percent that analysts polled by Thomson Reuters were expecting.

Dell's strategy of focusing on more profitable areas of its business and pruning lower-margin offerings "is working well," Gladden said.

Pacific Crest analyst Andy Hargreaves called the company's gross margin "impressive" and said Dell should be able to keep it up for now.

"They do have the potential to sustain margins long term, but in order to do so they have to drive toward more services-oriented businesses," he said.

Looking at the current quarter, Dell predicted revenue will rise by a percentage in the mid-single digits over the first quarter, slightly faster than its seasonal 2 percent to 3 percent growth. Analysts are expecting \$16.0 billion.

For the full fiscal year, the company continues to expect revenue to grow 5 percent to 9 percent, implying a total of \$64.6 billion to \$67.0 billion. Analysts expect annual revenue of \$64.4 billion.

Dell shares rose 86 cents, or 5.4 percent, to \$16.76 in extended trading. The stock finished regular trading down 10 cents at \$15.90.

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