Dell cuts guidance, showing industry uncertainty (Update)

August 16 2011, By JORDAN ROBERTSON , AP Technology Writer

In this Aug. 15, 2011 photo, the logo on a Dell computer is displayed, in Philadelphia. Dell Inc. reports quarterly financial earnings Tuesday, Aug. 16, after the market close. (AP Photo/Matt Rourke)

(AP) -- Dell Inc.'s decision to cut its revenue forecast for the year shows how computer makers are getting pulled in two directions at once, stretching some investors' faith to a breaking point.

Corporate and government demand for PCs has been strong for the past year, helping to lift the industry after the Great Recession. But consumer demand has collapsed because of high unemployment and the lure of new gadgets such as tablet computers and smartphones.

Worrisome new economic signs and budget cuts threaten to hamper the recovery. They have cast doubt on the ability of Dell and other PC makers to lift themselves in a meaningful way.

Dell's stock fell more than 7 percent Tuesday even as the company said its net income rose 63 percent in the latest quarter. The company lowered its revenue forecast for the fiscal year ending in January. It blamed "a more uncertain demand environment" than previously envisioned and a corporate decision to focus on more profitable deals.

The downgrade followed a barrage of bad news in recent months about the computer industry's health, and it could be a harbinger of tough times for other computer makers. Hewlett-Packard Co., the world's No. 1 PC maker, reports its results Thursday.

Shaw Wu, a technology analyst with Sterne Agee, said Dell's forecast was surprisingly weak and reflects economic troubles that are leading to lower spending globally on information technology. He added that it "definitely dampens expectations" for HP.

However, Wu added that part of Dell's troubles come as another company - Apple Inc. - is benefiting with a stronger push into small and medium businesses.

Apple, a key player in inventing the PC some 30 years ago, is thriving even as the PC industry suffers because of the company's pioneering of new markets, including tablet computers with the popular iPad. Over the past week, Apple has traded places with Exxon Mobil Corp. as the most valuable company in the world.

Outside of demand for Apple's Mac computers, consumer demand for PCs has cratered, reducing growth and even leading to contraction in the U.S. and Europe. Although consumers make up only 20 percent of Dell's PC business, they remain a powerful force in the digital economy. By snapping up iPads and smartphones, consumers are demonstrating that some hot new technologies - just not PCs - can be strong sellers even in hard economic times.

Meanwhile, government austerity measures have fueled uncertainty. That is threatening to depress not just government spending but consumer spending as well.

The pressures have deepened doubts about the industry's recovery. Dell's revenue from large corporations and consumers each rose 1 percent during the quarter from last year, to $4.6 billion and $2.9 billion, respectively. But revenue from the public sector fell 3 percent to $4.5 billion.

Revenue from small- and medium-sized businesses, where analysts say Dell is losing ground to Apple, grew 5 percent to $3.7 billion. But that growth rate is lower than previous years. In the same quarter last year, revenue grew 25 percent.

Where growth is occurring, it's generally not in Western countries. Dell indicated that India and China were two of its strongest-growing regions in the three months ended July 29, its fiscal second quarter.

After the market closed, Dell said net income rose to $890 million, or 48 cents per share, primarily on the strength of corporate and government spending. Companies have been banking record profits and upgrading older PCs and servers even as hiring remains tepid.

Dell earned 54 cents per share on an adjusted basis, which beat the average estimate of 49 cents per share from analysts polled by FactSet. A year ago, Dell earned $545 million, or 28 cents per share.

But Dell's revenue fell short. Although it rose 1 percent to $15.66 billion, analysts had been expecting $15.75 billion.

The company, which is based in Round Rock, Texas, also said it now expects revenue to grow 1 percent to 5 percent, compared with its previous forecast of 5 percent to 9 percent. The new forecast translates to $62.1 billion to $64.6 billion.