

Dell's 2Q earnings fall 72 pct amid PC sales slide (Update 2)

15 August 2013, by Michael Liedtke

Dell's woes worsened during its most recent quarter as the slumping personal computer maker resorted to rampant price cutting to slow a sales decline driven by a growing reliance on smartphones and tablets to connect to the Internet and perform other technological tasks.

The discounting contributed to a 72 percent drop in Dell's fiscal second-quarter earnings.

The disheartening results announced Thursday could help Dell Inc.'s board persuade more of the company's stockholders that they're better off accepting a buyout offer from a group led by CEO Michael Dell rather than risk further financial deterioration in the months ahead.

After Dell's report came out, ISI Group analyst Brian Marshall advised shareholders to "take the money and run."

Shareholders are scheduled to vote on Michael Dell's \$24.8 billion bid on Sept. 12. The proposal faces fierce resistance from two major Dell stockholders, billionaire Carl Icahn and investment fund Southeastern Asset Management, who contend the Texas company is worth more than the \$13.88 per share being offered by Michael Dell and his main ally, Silver Lake Partners.

The opposing arguments have been compelling enough to prompt Dell's board to delay the shareholder vote on the deal three times. Before the last delay, Michael Dell and Silver Lake agreed to pay a special dividend of 13 cents per share to supplement a bid that had already been raised from \$13.65 per share to \$13.75 per share.

Dell's stock dipped 6 cents to \$13.65 in extended trading after the report came out.

Although Dell's fiscal second-quarter results painted a dismal picture of the PC market, the numbers could provide Icahn and Southeastern

with material to bolster their contention that the company will fare better in the future as it diversifies into higher-end computing for companies, business software, data storage and technology consulting.

Some of the Dell divisions focusing on those areas showed progress in the latest quarter. For instance, revenue in Dell's services division edged up by 3 percent compared with the same time last year and also made slightly more money. Revenue in the business software arm more than tripled during the quarter, largely because of an acquisition, but the losses widened in that division.

Michael Dell also sees better days ahead for his company. But he maintains Dell Inc. must first undergo a painful realignment that's likely to trim its earnings for another year or two, a process he believes will be easier to pull off if he doesn't have to worry about Wall Street's fixation on short-term results. His buyout offer would end Dell Inc.'s 25-year history as a publicly held company.

Dell's board decided to accept Michael Dell's buyout offer after concluding there are no assurances that the company will be able to adapt to the upheaval caused by the popularity of smartphones and tablets. The shift began shortly after Michael Dell returned for a second stint as company CEO in early 2007, right around the same time Apple's late co-founder Steve Jobs was preparing to unveil the iPhone. Dell's stock has fallen more than 40 percent since Michael Dell returned to run the company.

If Icahn can thwart the deal to sell the company and gain control of the board, he has pledged to fire Michael Dell as CEO.

Dell Inc. earned \$204 million, or 12 cents per share, in the quarter ending Aug. 2, from \$732 million, or 42 cents per share, last year.

If not for certain items unrelated to its ongoing business, Dell said it would have earned 25 cents per share in the latest period. That figure was a penny above analysts' expectations.

Revenue remained level at \$14.5 billion—nearly \$400 million above analysts' predictions.

As has been the case for the past two years, Dell's PC business remained the weak link. That's bad news because PCs still generate nearly two-thirds of Dell Inc.'s revenue, despite Michael Dell's push to expand into other niches.

Revenue in Dell's PC division declined from 5 percent from last year to \$9.1 billion while operating profit plummeted 71 percent. Sales of desktop computers edged up slightly during the quarter, but revenue from laptops fell 10 percent as tablets gained more traction.

"We continue to see challenged demand in this business and continued market competitiveness," Dell said of the PC division in a prepared statement.

Dell's management didn't provide a forecast for its current quarter, which will end in early November. The company did not hold its regularly scheduled conference call with analysts because of the debate over whether the company should be sold.

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APA citation: Dell's 2Q earnings fall 72 pct amid PC sales slide (Update 2) (2013, August 15) retrieved 16 November 2019 from <https://phys.org/news/2013-08-dell-2q-fall-pct-pc.html>

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