Dell's outlook disappoints as PC market falters

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(Reuters) - Dell Inc warned of a challenging second half and slashed its full-year earnings [1] outlook as customers cut back on computer purchases ahead of the launch of Microsoft's Windows 8 software, sending its shares down more than 4 percent.

Dell - once the world's top PC maker and a pioneer in computer supply chain management - is struggling to defend its market share against Asian rivals like Acer Inc and Lenovo, and the fast-growing adoption of tablets like Apple Inc's iPad [2].

Founded by Chief Executive Michael Dell, it is in the midst of a turnaround, juggling acquisitions to bolster growth with the need to fatten margins by trimming expenses even as global tech spending appears to be slipping. In May, it warned that global tech spending is weakening faster than anticipated.

The No. 2 U.S. PC maker on Tuesday forecast revenue would slide 2 percent to 5 percent in the fiscal third quarter from the second, to $13.8 billion to $14.2 billion. That lagged Wall Street's target of $14.85 billion.

It is predicting earnings per share of "at least" $1.70 for fiscal 2013, compared with a previous forecast for more than $2.13.

"People had already expected them to take down numbers, but I think the level to which they are taking down numbers is pretty severe compared to expectations," said Cross Research analyst Shannon Cross.

Dell Chief Financial Officer Brian Gladden said in an interview the company tempered its outlook for the third quarter partly because it expects distributors to hold off on buying new computers before the late-October release of the latest version of Microsoft Corp's Windows operating system.

"The revenue deterioration we saw in the quarter was clearly above anything we expected," he told analysts on a call.

To shore up margins and generate revenue growth, Dell is trying to expand further into enterprise computing, where it then goes up against larger rival Hewlett Packard.

On Tuesday, it announced that it had hired ex-HP networking chief Marius Haas to head up its enterprise solutions division and help hasten its push into global services, confirming an earlier Reuters report.

Enterprise solutions revenue rose 6 percent to $4.9 billion or more than a third of overall sales, while server and networking revenue climbed 14 percent. In contrast,

consumer revenue plummeted 22 percent to $2.6 billion, underscoring the plight of the broader PC market.

Haas, who joined private equity firm Kohlberg Kravis Roberts after departing HP, replaces Brad Anderson.

WINDOWS: SAVIOR?

The imminent version of Windows is designed with touchscreen devices and Internet-based computing in mind. Analysts say it may give PC makers like Dell, HP and Lenovo a chance to win back market share lost to the iPad.

In June, Microsoft took the wraps off the "Surface" tablet computer, which some analysts see as an attempt to demonstrate the effectiveness of Windows as a mobile platform.

But CEO Dell told analysts it could take a while for sales of the device to ramp up, saying that he has heard estimates from Microsoft that the new devices are likely to account for just 1 to 2 percent of total PC units shipped through the middle of next year.

"The jury is out as to whether they will be able to improve their growth rates until they get some Windows 8 tablets out," Cross said.

Dell reported fiscal second-quarter revenue of $14.5 billion, below the $14.64 billion analysts had expected on average, according to Thomson Reuters I/B/E/S.

It posted net income of $732 million or 42 cents a share in the fiscal second quarter, compared with $890 million or 48 cents a year earlier. Excluding certain items, it earned 50 cents a share, beating an average forecast for 45 cents.

As part of a restructuring, Dell intends to slash more than $2 billion in costs over the next three years, primarily from the supply chain and sales group, as it sharpens its focus on the technology needs of corporations.

Shares of the company, which plans to pay its first dividend to shareholders this year, remain down 15 percent in 2012, suppressed by disappointing quarterly earnings and fears that mobile devices are eroding PC spending.

The company's stock fell to $11.78 in after-hours trade. They had closed at $12.34 on the Nasdaq [3]. HP stock was down more than 1.5 percent at $19.70 in extended trade after closing at $19.93 on the New York Stock Exchange.

(Reporting By Jim Finkle and Edwin Chan; Editing by Bernard Orr)

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