

HP net jumps 25 percent on cost cuts, PC strength

February 17 2010, By JORDAN ROBERTSON , AP Technology Writer



Hewlett-Packard inks are seen on display at Best Buy in Mountain View, Calif., Tuesday, Feb. 16, 2010. Hewlett-Packard Co. reports quarterly financial results Wednesday. (AP Photo/Paul Sakuma)

(AP) -- Hewlett-Packard Co.'s latest numbers show that corporations are spending more on technology in 2010 than they did last year - but only on certain things so far.

Businesses are bulking up on their back-end computing power. Sales of servers were up in HP's November-January fiscal first quarter, an encouraging sign for a part of the technology world that was hammered by the recession.

Another good sign for the industry: HP's sales of personal computers

were also up. However, a lot of that growth was driven by consumers lured by the rollout of PCs loaded with Microsoft Corp.'s Windows 7 operating software.

Cathie Lesjak, HP's chief financial officer, said corporations aren't expected to spend heavily on new PCs until the second half of the year.

That anticipated "refresh" of old PCs is one reason why HP boosted its 2010 guidance. The company cited "accelerating market momentum," cost cuts and stronger products.

The numbers topped Wall Street's forecasts.

"It's better than expected," said Jayson Noland, an analyst with Robert W. Baird & Co. "The hardware side of their business bounced back really nicely, especially the PC and server divisions."

Sales of computer hardware have been weak the past year because corporations have clung to older equipment to save money, instead of replacing it.

Mark Hurd, HP's CEO, said it's too early to say that the entire information technology market is better. He told analysts on a conference call that the company saw strength in Asia and the U.S. but a "mixed story" in Europe.

HP's net income jumped 25 percent over last year to \$2.3 billion, or 96 cents per share, in the three months ended Jan. 31. In the same period last year, HP earned \$1.9 billion, or 75 cents per share.

Excluding one-time items, HP said it would have earned \$1.10 per share. That beat the average estimate of \$1.06 per share, according to analysts surveyed by Thomson Reuters.

Revenue jumped 8 percent to \$31.2 billion, exceeding analyst forecasts for \$30.0 billion.

Services was the only major HP division to suffer a decline. Revenue fell 1 percent even as the division got more profitable. Services represent HP's latest challenge against rival IBM Corp. and are a cornerstone of a major makeover for HP. It is now HP's most profitable division.

Lesjak said the services decline was in line with the performance of the overall market. She said that indicated HP is holding market share in services.

HP bought its way into services in 2008 with the \$13.9 billion acquisition of Electronic Data Systems. HP is eliminating 24,600 jobs as part of the EDS takeover.

HP's 2010 forecast now calls for \$121.5 billion to \$122.5 billion in revenue, exceeding the \$120 billion analysts were expecting.

Net income is expected to be \$3.79 per share to \$3.86 per share, or \$4.37 per share to \$4.44 per share excluding charges. Analysts were expecting \$4.37 per share, excluding charges.

HP shares rose 48 cents to \$50.60 in after-hours trading, after the results were reported.

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