

HP's 3Q numbers solid but could fuel doubts

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In this June 1, 2010 file photo, employees arrive on bikes in front of Hewlett Packard Company headquarters in Palo Alto, Calif. Hewlett Packard Co. is scheduled to report its fiscal third-quarter numbers Thursday, August 19, 2010, after the market close. (AP Photo/Paul Sakuma, file)

(AP) -- Now that Mark Hurd is out as CEO of Hewlett-Packard Co., the world's biggest technology company is trying to prove to Wall Street that it can thrive under the sweeping changes he set in motion.

Its numbers for the May-July quarter - the last full quarter under Hurd - were solid but could still provide fuel for doubters.

HP's net income jumped 6 percent and revenue notched 11 percent higher in its fiscal third quarter, which squared with preliminary results HP revealed Aug. 6 in announcing Hurd's abrupt resignation.

The numbers reported Thursday show that HP's bedrock businesses of selling computers and printer ink are chugging along.

Those face pressures, though, as many analysts are predicting a weak back-to-school season amid fears about the strength of the U.S. economic recovery and the fallout from the debt crisis in Europe.

The latest numbers also show that one of Hurd's biggest projects - transforming HP into a technology-services powerhouse like IBM Corp. - is progressing slowly.

Outsourcing and other services help companies save money but are under pressure as many are hesitant to commit to long-term deals out of fears about the economy and their financial health. That division - which is HP's most profitable - was also the slowest-growing in the latest quarter.

HP's chief financial officer and interim CEO, Cathie Lesjak, said the latest numbers and a higher outlook for 2010 demonstrate "the power of our strategy and the discipline of our execution."

As sanguine as HP management is about its prospects, Hurd's departure has rattled investors.

During his 5 years atop HP, HP's market value climbed by more than \$40 billion to around \$108 billion. After he resigned, investors lopped off more than a third of those gains, and HP's market capitalization plunged by as much as \$15 billion in the following days.

The stock dropped by about 14 percent, before recovering in recent days. Shares are still 12 percent down since the announcement, and HP's market capitalization was about \$95 billion at the close of regular-session trading Thursday.

After the release of results Thursday, shares fell 21 cents, or 0.5 percent, to \$40.55 in extended trading. In regular trading earlier, shares fell 60 cents, or 1.5 percent, to close at \$40.76.

HP's net income was \$1.77 billion, or 75 cents per share, in the three months ended July 31, versus \$1.67 billion, or 69 cents per share, a year ago.

Excluding items, HP would have earned \$1.08 per share. That was in line with analysts' forecasts.

Revenue was \$30.7 billion, up from \$27.6 billion a year ago. Analysts expected \$30.4 billion.

Hurd was forced out in a fight with HP's board over a sexual-harassment claim against him and inaccurate expense reports connected to his dinners and other outings with his accuser.

HP found that its sexual-harassment policies weren't violated, but that its standards of appropriate business conduct were. Hurd settled with his accuser for an undisclosed sum and was given a severance package that could top \$40 million. He says that he never prepared his own expenses and that the omission of his accuser's name from some of the reports was inadvertent, as her name appeared on others.

Hurd orchestrated HP's push beyond personal computers into more profitable areas such as outsourcing and computer networking. He engineered more than \$20 billion in acquisitions and was praised by Wall Street for extensive cost-cutting. HP announced about 50,000 job cuts under Hurd's watch. The company currently has about 300,000 employees.

This week, HP announced that it hired executive-search firm Spencer

Stuart to lead the hunt for a new CEO. The job is coveted, because of HP's role as the world's largest technology company by revenue. It is also troubled: Hurd and his predecessor, Carly Fiorina, were both forced out in public disputes with the board of directors.

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