

Lackluster results show challenge for HP's Whitman

November 21 2011, By JORDAN ROBERTSON , AP Technology Writer



This Nov. 14, 2011 photo, shows the company logo on a Hewlett-Packard keyboard at the Micro Center computer store in Santa Clara, Calif. Hewlett-Packard releases quarterly financial results Monday, Nov. 21, 2011, after the market close. (AP Photo/Paul Sakuma)

Hewlett-Packard Co.'s first earnings report with Meg Whitman as CEO highlights the troubles she faces in setting a new course for the besieged company.

The latest quarterly numbers, reported Monday after the market closed, beat Wall Street's subdued expectations. But the forecast for the 2012 fiscal year left something to be desired. HP's shares fell.

The results show a company being pulled in two directions at once. The

tensions underline a key challenge for Whitman, who is best known for building eBay Inc. from its startup days into a Silicon Valley icon and now must wrestle with one of technology's oldest companies amid management dysfunction and economic malaise.

Whitman's first major decision as CEO was deciding to keep the \$40 billion-plus personal computer business, which her predecessor, Leo Apotheker, had wanted to sell or spin off. That business is pulling HP toward the low end of the technology market. PCs notoriously carry thin profit margins, and customers are spending less on them amid challenges from rival technologies, mainly smartphones and tablets. HP sees PCs as an inexpensive way to get its sales hooks into corporations and sell more expensive technology.

Meanwhile, HP has spent tens of billions of dollars expanding into those more profitable areas of technology services and software. But cracking those businesses means facing entrenched enemies such as IBM Corp. HP faces serious questions about its competitiveness at the high end of those markets.

The latest earnings report showed HP's net income fell 91 percent - mostly because of write-downs and charges for Apotheker's decision to kill off HP's fledgling tablet and smartphone lines. So staying on track will be a challenge.

The company earned \$239 million, or 12 cents per share, for the quarter ended Oct. 31. That's down from \$2.54 billion, or \$1.10 per share, a year earlier.

Excluding one-time items, HP earned \$1.17 per share, more than the \$1.13 analysts expect on average, according to FactSet.

Revenue fell 3 percent to \$32.12 billion, but that beat the \$32.05 billion

analysts expected.

HP's shares briefly rose in extended trading, after the results were reported. But momentum turned against the company as investors digested the weaker outlook, and the shares fell 28 cents. In regular trading Monday, the stock fell \$1.13, or 4 percent, to close at \$26.86.

The forecast was lower than most analysts' targets. HP said it was being "cautious," citing turmoil in Europe amid the debt crisis there, soft consumer spending and weakening spending by businesses.

Analyst Brian White with Ticonderoga Securities called the outlook "weak" but said the stock has some appeal in investors because of its previous declines. Indeed, the stock has fallen 40 percent since CEO Mark Hurd was ousted last year in an ethical scandal.

"HP has valuation on its side and expectations are low; however, we believe this turnaround story will take time to play out, and the darkening macroeconomic environment is only likely to hinder this cause," White wrote in a note to clients.

The profit decline in the latest quarter was caused in large part by \$3.3 billion in charges for HP's earlier decision to kill its tablet and smartphone businesses, as well as other write-downs and acquisition costs. Revenue in three of HP's biggest divisions - personal computers, printers and ink, and servers and networking - fell as well.

Whitman faces a real test as she attempts to pull together a conglomerate beset by growing pains and managerial strife. She is HP's third CEO in a year and a half. Though HP is the world's largest information technology company by revenue, the company has had a hard time deciding whether it wanted to grow even bigger or start getting smaller.

Apotheker, who succeeded Hurd, was ousted in September over his botched handling of key initiatives, particularly the plan to sell or spin off the PC division, which leaked early to the press and which Whitman has reversed.

For the fiscal first quarter, HP expects earnings of 83 cents to 86 cents per share, excluding one-time items. That's far less than the \$1.11 per share analysts expected.

For the full fiscal year, HP expects to earn at least \$4 per share, excluding one-time items. Analysts expected \$4.53 per share on that basis.

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Citation: Lackluster results show challenge for HP's Whitman (2011, November 21) retrieved 10 May 2024 from <https://phys.org/news/2011-11-hp-profit-falls-declines-results.html>

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