

# Tough times for HP ahead; will investors wait?

February 23 2012, By ANICK JESDANUN , AP Technology Writer

---



This Feb 21, 2012 photo shows a Hewlett Packard logo in Frisco, Texas. Hewlett-Packard Co. will update investors on its progress under CEO Meg Whitman Wednesday afternoon when the world's largest personal computer maker releases its fiscal first-quarter earnings. (AP Photo/LM Otero)

(AP) -- Hewlett-Packard Co. plans to spend years turning itself around as it addresses internal problems and battles broader threats from smartphones and tablet computers.

Investors willing to wait could be rewarded. Its market value is half of what it was about a year ago, and HP could start to improve in the second half of 2012.

It won't be easy, though.

After all, HP will need to fix itself as the personal-computing industry faces its own challenges, including reduced spending by consumers who are saving up for [iPads](#) and other popular devices.

Richard Gardner, an analyst at Citi Investment Research, described HP's road to recovery as "not a journey for the faint of heart."

After presiding over her first full quarter as CEO, [Meg Whitman](#) said Wednesday that she has a good sense of what the company needs to do.

For starters, Whitman said, HP needs to fix its internal operations. The company is unable to turn orders into products quickly enough, and its supply chain is a mess. HP has numerous parts in its inventory, but not necessarily the right parts to fulfill actual orders. The variety also creates confusion in sales and technical support. Whitman said HP needs to invest more in internal systems and procedures.

Longer term, she said, the company needs to spend more money to grow businesses such as security services, [information management](#) and Internet-based systems known as cloud computing.

"We didn't make the investments we should have during the past few years to stay ahead of customer expectations and market trends," Whitman said. "As a result, we see eroding revenue and profits today."

HP reported a 44 percent drop in [net income](#) to \$1.47 billion, or 73 cents a share, in the November-January period. Revenue was \$30 billion, down 7 percent and slightly below forecasts of \$30.7 billion. It was the fastest revenue decline for the company since the [recession](#) hit 2009 results.

The division that makes PC desktops and laptops saw revenue fall 15 percent to \$10.4 million. That's still about a third of the company's

revenue. A shortage in hard drives because of flooding in Thailand was partly to blame. So was increased competition from mobile devices, which HP quit making last year after losing to Apple and manufacturers using Google's Android system.

To pay for investments, HP needs to cut costs. Whitman didn't offer specifics; some analysts foresee "restructuring" - which often means job cuts.

"We have got to save to invest," she said. "We have got to save to grow."

Whitman became CEO in September after HP fired Leo Apotheker just 11 months into the job. Apotheker also complained about underinvestment by his predecessor, yet his decisions hadn't instilled any confidence.

Among other things, Apotheker announced that HP was looking to jettison its PC unit, which has large volume but small profits. That scared off some buyers, who may not have come back when Whitman decided to keep the division.

Whitman pleaded patience as she described "a multiyear journey."

Investors responded by selling shares of HP. The Palo Alto, Calif., company's stock fell \$1.89, or 6.5 percent, to close Thursday at \$27.05. Its market value of \$54 billion compares with \$104 billion about a year ago.

Louis R. Miscioscia, an analyst with Collins Stewart, said the stock looks cheap, but a turnaround now seems further away. He noted that IBM Corp., which transformed from a dying PC maker to a leading provider of software and services, had to work hard for more than a half decade to get there.

Nonetheless, he raised his price target on HP's stock Thursday to \$28, from \$25.

Of course, HP may be intentionally setting expectations low.

Analyst Shaw Wu at Sterne Agee said many investors dismissed Cisco Systems Inc. a year ago, after its focus got scattered from expanding into too many new markets. But the network-equipment maker has reported a few good quarters in a row. The stock is up nearly 50 percent since Aug. 10.

Wu expects HP's [revenue decline](#) to start slowing by midyear. That's when supplies of hard drives should rebound. Soon after that, [HP](#) could see increased sales from an upcoming release of Microsoft's Windows 8, an operating system that would work similarly on PCs and [tablet computers](#).

If that's the case, a turnaround may happen sooner and reward investors who buy HP's stock now and hang on to it.

"It's tough to count them out," he said. "They have a lot of the ingredients. It boils down to execution. At least they have a game plan in place."

©2012 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Citation: Tough times for HP ahead; will investors wait? (2012, February 23) retrieved 24 April 2024 from <https://phys.org/news/2012-02-tough-hp-investors.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.