HP's long-term turnaround could test investors' patience

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Like some gargantuan supertanker that's blundered in the wrong direction, Hewlett-Packard's storied yet faltering business is expected to take nearly half a decade to turn around, but a looming question is whether investors will give the company and its new CEO Meg Whitman that much time.

Its investors have reason to be restless. Many of them have watched the Silicon Valley leviathan struggle to find its way amid heightened competition complicated by a succession of management missteps and purges. And to keep them now from jumping ship or demanding the heads of more executives, some analysts say, HP needs to start showing marked advances sooner rather than later.

"There is a lot of frustration and disappointment about what has happened" at HP, said JPMorgan analyst Mark Moskowitz, adding that the tech giant will have to demonstrate significant improvement within a year to reassure skittish shareholders. But given the problems facing HP, "that's going to be tough to do," he added.

Even Whitman acknowledges that fixing the company, which has seen its shares lose half their value over the past two years, is a "big undertaking." At an industry conference last week, she said it may take "four or five years."

How that assessment is playing with stockholders isn't clear. When the San Jose Mercury News asked 10 of the biggest stockholders about her analysis, all declined comment.

But Daniel Morris, chief investment officer of Morris Capital Advisors, which unloaded its HP stock in May last year over concerns about where the corporation was heading, said he is wary of putting more money into the company - especially since its revival will take a while.

"She's being honest," he said of Whitman's four- to five-year estimate. "They have such substantial issues to resolve."

Despite earning $7 billion on sales of $127 billion in its most recent fiscal year, HP's profit has been flat for the last three years, its revenue has leveled off in recent quarters and its leadership has been in turmoil, with Whitman its fourth CEO since 2005. Moreover, while the company remains the world's biggest computer maker, its PC business faces increasing pressure from smartphones and tablets - markets it's been unsuccessful at entering.

Executives at HP, which sells everything from networking switches and routers to data storage devices and calculators, declined to be interviewed about these challenges. But Whitman already has started an overhaul. She has merged its PC and printer divisions, reshuffled its management and last month announced plans to cut its employee ranks by 27,000, or about 8 percent.

The workforce reduction is expected to save up to $3.5 billion. Still, some analysts are troubled that the cuts won't be completed until the end of 2014.

"Why are they waiting to spread this out over two years?" asked Mark Fabbi of the Gartner research firm. "By the end of October, that should be done."

Further delays in HP's recovery could result from the economic debacle in Europe, experts fear.

Although the company doesn't break out sales solely for that continent, Europe, the Middle East and Africa accounted for 35 percent of its revenue in the second quarter of this year. If Europe's financial picture worsens, sales to the region by HP and other tech companies could be blunted and "we could be looking at a global economic crisis," said technology analyst Patrick Moorhead.

Keeping investors happy isn't something corporations take lightly. In many companies, including HP, the top executives own much of the stock themselves and don't want to see it devalued. If the share price sinks too low, other investors may seek to oust its management, the company could have a harder time raising money for acquisitions or capital improvements and it could become vulnerable to a takeover. Moreover, if the value of its stock options plummets, it might have trouble retaining and attracting the skilled workers it needs.

While no one suggests HP is in imminent danger of any of those scenarios, it does need to provide better clarity about what sort of company it is trying to become, some analysts said.

In announcing the recent layoffs, Whitman promised to invest much of the savings in products to help customers operate on the Internet, ward off computer hackers and analyze data. But more details would help, said Cindy Shaw of Discern, an investment research and analytics firm.

"Investors want more specifics about HP's strategy, how HP intends to get back on track and what its earnings outlook is beyond this year," she said. Still, she credited Whitman with "bringing stability to the company" and noted that HP's major investors "largely realize it will take years to turn HP around."

How rapidly Whitman and her executive team can make that happen "is going to come down to execution," said Jack Narcotta, an analyst at Technology Business Research. But given HP's size and the uncoordinated manner in which its business units have operated, he added, "she has her work cut out for her."