

Moody's cuts HP long-term debt rating to Baa1 (Update)

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(AP)—Moody's Investors Service on Wednesday lowered its long-term credit rating on Hewlett-Packard, saying the technology giant will have trouble increasing sales of many of its products.

Moody's lowered HP's senior unsecured credit rating by one notch, to "Baa1" from "A3." The rating remains investment grade but Moody's said its outlook is negative, implying it could be further downgraded.

HP's finances will remain weaker than previously expected "over the immediate term," Moody's senior vice president Richard Lane said in the rating announcement.

About 75 percent of HP's revenue comes from personal computers, enterprise servers, printers and services, Lane noted. He said those offerings "face slow to no growth prospects over the coming years."

It's not certain whether HP can restore growth and profitability, Lane said.

Moody's expects the company's revenue will likely decline 5 percent next year and its profit margin will narrow. It sees free cash flow after dividends next year of about \$4 billion, down from an earlier estimate of \$6 billion to \$7 billion.

The rating downgrade affects about \$25 billion of HP bonds. A spokesman for HP, which is based in Palo Alto, California, said the

company had no immediate comment on the Moody's report.

Moody's began its review of HP's rating in October. HP has been falling out of favor on Wall Street as its personal computer and printer businesses face increasing competition from tablet computers and smartphones.

To add to its doldrums, HP announced last week that it took an \$8.8 billion charge because it determined a business software maker it acquired for \$10 billion last year was worth far less. HP has alleged that the acquired company, Autonomy, lied about its finances.

In August, HP disclosed that its \$13 billion acquisition of technology consulting service Electronic Data Systems wasn't working out as well as management had expected.

The trouble in Autonomy and EDS has forced HP to absorb nearly \$17 billion in accounting charges in the past two quarters, resulting in the biggest losses in the company's 73-year history.

HP's market value has been cut in half since the beginning of the year.

Moody's warned that HP's travails might cause it to undertake "shareholder friendly actions or portfolio repositioning" that would further weaken its credit standing.

Moody's assigns the "Baa1" rating to debt that it believes is on the lower end of investment grade. Companies with the rating are subject to moderate risk of default, placing them somewhere between safe and speculative investments.

HP's stock closed up 37 cents, or 3 percent, at \$12.73.

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