

HP's 1Q offers glimmer of hope, stock surges (Update 2)

February 21 2013, by Michael Liedtke

Hewlett-Packard Co.'s latest quarterly results provided a glimmer of hope after months of gloomy news.

The fiscal first-quarter numbers announced Thursday topped what the slumping personal computer maker's own management and stock market analysts had forecast.

Like other PC makers, HP has been struggling to adapt to a shift toward smartphones and tablet computers, which are siphoning sales from desktop and laptop machines made by HP and other companies. Adding to the problems were some acquisitions gone awry. Over the past two quarters, HP announced losses totaling \$15.3 billion as the company accounted for those mishaps, to the shock of Wall Street. The jolt caused HP's stock to plunge to its lowest price in a decade just three months ago.

The shares have rebounded since then, though they still remain about 20 percent below where they were in Sept. 2011, when the company fired Leo Apotheker as its CEO and hired Meg Whitman, who became a high-tech star while running eBay Inc.'s online marketplace.

The same problems are still plaguing HP, but signs of progress in the latest quarter indicated that the company's turnaround efforts are running ahead of schedule. Whitman has consistently said it may be several years before HP is on solid ground again.

She said the company is in the best condition since she was hired as CEO. "The patient showed some improvement," Whitman told The Associated Press in a Thursday interview.

She stopped short of predicting HP will be fully cured more quickly than she anticipated. "I don't want to get out over my skis." Whitman said.

In a show of confidence, HP provided an earnings forecast for the Feb.-April quarter that was higher than analysts' projections.

The company's stock rose 94 cents, or 5.5 percent, to \$18.04 in after-hours trading. At its recent low, the stock was down to \$11.35.

HP earned \$1.2 billion, or 63 cents per share, in the three months ending Jan. 31. That was a 16 percent decrease from nearly \$1.5 billion, or 73 cents per share, at the same time a year earlier.

Excluding certain accounting items, HP would have earned 82 cents per share. That was well above the average estimate of 71 cents per share among analysts surveyed by FactSet.

Revenue fell 6 percent to \$28.4 billion, about \$470 million above analysts' projections. It was nearly \$30 billion a year earlier. It's the sixth consecutive quarter that HP's revenue has dropped from the previous year.

Excluding one-time items, HP expects to earn 80 to 82 cents per share in the current quarter. Analysts estimated earnings of 77 cents per share.

HP isn't predicting when its revenue downturn might end. In a conference call with analysts, Whitman said HP still faces a "long road ahead" before its revenue is growing again. To help offset the revenue decline, HP is in the process of eliminating 29,000 jobs, or about 8

percent of the workforce when it was announced, in a streamlining scheduled to be completed by Oct. 2014. Whitman said about 15,300 of the jobs targeted in the cost-cutting program have been jettisoned so far. About 3,500 people left in the most recent quarter.

The Palo Alto, California, company's biggest headaches remain rooted in the HP division that includes PCs, where revenue fell 8 percent from the previous year. Printer sales also continued to slide, although not quite as severely, with a 5 percent decrease.

Whitman is trying to reverse the trend by expanding into tablet computers and selling an array of machines running on Windows 8, a radical redesign of Microsoft's widely used operating system.

HP had tried to previously challenge Apple Inc.'s trend-setting iPad in 2011 with a tablet running on software that it acquired from Palm Inc., only to quickly abandon the device. The company's latest tablets run on Windows 8 or scaled-down versions of that operating system.

Whitman also believes HP could benefit from rival Dell Inc.'s agreement to sell itself to CEO Michael Dell and a group of investors for \$24.4 billion. If it's approved the deal could saddle Dell with an additional \$15 billion in debt—a burden that Whitman believes will raise questions about the company's ability to innovate and tend to the needs of its corporate customers.

"It is an opportunity for us because I know firsthand what instability is like," Whitman said in the AP interview. "I think we are really well positioned for this next big shift in technology. We are excited about it and feel good about where we are."

Dell's decision to end its 25-year history as a publicly traded company has spurred speculation that HP might take a radical step, too, to boost

its stock price. The most popular theory is that HP will sell or spin off its PC and printer operations to concentrate on more profitable technology markets in business software and various services.

"We have no plans to break up HP," Whitman said in an interview. "We are convinced that these divisions are better together than they are alone."

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Citation: HP's 1Q offers glimmer of hope, stock surges (Update 2) (2013, February 21) retrieved 2 May 2024 from <https://phys.org/news/2013-02-hp-1q-results-analyst.html>

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