

Hewlett-Packard splits off PC, printer businesses

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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 on Monday, Oct. 6, 2014 said it is splitting itself into two companies, one focused on its personal computer and printing business and another on technology services, such as data storage, servers and software, as it aims to drive profits higher. (AP Photo/Paul Sakuma, File)

Hewlett-Packard is splitting itself into two companies, one focused on its

personal computer and printing business and another on technology services such as data storage, servers and software, betting that it can drive faster sales growth with more-focused operations.

Hewlett-Packard, like other PC makers, has struggled as customers shifted toward smartphones and tablets and away from desktops and laptops. It also has been shifting its services business toward cloud computing opportunities as fewer customers opt for traditional data storage. The company has posted revenue declines in 11 of the past 12 quarters and laid off tens of thousands of people in recent years as it attempts to cut costs.

HP hopes that the two units will be worth more separately and be able to grow more quickly apart than they can together.

The planned breakup follows other big companies that have spun off business units in order to drive growth. EBay Inc. last week said it would spin off its fastest-growing segment, payment service PayPal, into a separate publicly traded company.

HP first considered breaking off its PC unit back in 2011, but decided against it. CEO Meg Whitman, who has been leading the company's turnaround for the past three years, said Monday that HP has now shored up its business enough to support the split.



In this Aug. 16, 2008 file photo, Hewlett-Packard printers are stacked on the shelf of a Best Buy store in Seekonk, Mass. Hewlett-Packard on Monday, Oct. 6, 2014 said it is splitting itself into two companies, one focused on its personal computer and printing business and another on technology services, such as data storage, servers and software, as it aims to drive profits higher. (AP Photo/Stew Milne, File)

"The best tactic to continue the turnaround journey is to position HP as two great new companies," she said in an interview with CNBC. "Before a few months ago we were not in the right position to do this."

Whitman said the split will give the two companies "the independence, focus, financial resources, and flexibility they need to adapt quickly to market and customer dynamics."

There are numerous reasons why HP would want to divide the

businesses, including the slowdown of the PC market since the iPad debuted in April 2010, says Cantor Fitzgerald analyst Brian White. While the PC market has shown some improving trends this year, separating into two companies gives HP the option to sell off one or both businesses if an attractive offer is made, he wrote in a note to clients.

HP's announcement may be coming now partly because the stock market has been supportive of spinoffs of late, says Jim Suva of Citi Investment Research. Also, the company's stronger balance sheet, stable PC margins, improving services profits, better financials and completion of the more difficult parts of its restructuring efforts played a role in its decision to act now, he said.

During its most recent quarter HP reported revenue of \$27.6 billion, a 1 percent annual gain. It marked HP's first year-over-year increase in quarterly revenue since late 2011. Printers and computers contributed 51 percent of the company's quarterly revenue, with the rest coming from technology services like consulting, software and financial programs.

The PC and printer business will use the name HP Inc. and retain the blue and white logo. The services business will be called Hewlett-Packard Enterprise. Whitman will lead the Enterprise business and serve as non-executive chairman of HP Inc. Current PC and printer chief Dion Weisler will be CEO of HP Inc.

HP is expected to complete its latest round of layoffs, between 11,000 to 16,000 people, this month. Total job cuts will now stand at 55,000, up from a planned 50,000. In her interview with CNBC, Whitman left open the possibility for further layoffs as the separate businesses determine their cost structure going forward.

The split, if approved by the company's board, is expected to close by the end of fiscal 2015. Once complete, HP stockholders will own shares

of both companies.

Shares of Hewlett-Packard Co., based in Palo Alto, California, rose \$1.67, or 4.6 percent, to \$36.82 in morning trading. The stock is up 32 percent since the beginning of the year.

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