

HP CEO Pleads Patience As Earnings Fall 44 Percent

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NEW YORK (AP) — Hewlett-Packard Co. CEO Meg Whitman pleaded for patience Thursday as she described operational challenges and other internal problems that contributed to a decline in earnings at one of the world's largest technology companies.

Even as HP blamed weak consumer demand and supply shortages due to flooding in Thailand for lost revenue opportunities in the latest quarter, Whitman said years of underinvestment in systems and procedures made those problems worse.

She described a company in transition and said HP needed to improve internal procedures and reduce costs to free up money for investments in growing areas. She said HP, which now makes much of its revenue from computers and printers, sees opportunities in security services, information management and Internet-based systems known as cloud computing.

Whitman described her turnaround plan as a "multiyear journey."

"I feel very good that we know the challenges," she said. "We know what we're going to do about them, and we're headed in the right direction."

HP's sales to consumers fared the worst in the November-January period, the first full quarter under Whitman. Revenue from consumer products and services fell 23 percent worldwide from a year earlier.

HP is the world's largest maker of PCs, but it's been performing poorly as buyers in the industrialized world turn their attention to Apple's iPads and Macs. Meanwhile, the company has been unable to properly capitalize on the growing appetite for PCs in emerging markets.

Whitman said HP also had to battle cautious spending by some business customers in the U.S. Worldwide, revenue in the company's commercial businesses fell 4 percent.

The company said it remained guarded about prospects in Europe, although some of the markets elsewhere in the world appear to be stabilizing.

HP earned \$1.47 billion, or 73 cents per share, in the fiscal first quarter, down 44 percent from \$2.6 billion, or \$1.17 a share, a year earlier. Adjusted for one-time items, the company earned 92 cents per share, above the 87 cents expected by analysts surveyed by FactSet.

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Revenue was \$30 billion, down 7 percent from \$32.3 billion and slightly below expectations of \$30.7 billion. The revenue drop was even steeper, 8 percent, when taking out the effect of changes in currency exchange rates. It was the fastest revenue decline for the company since the recession hit 2009 results.

HP blamed flooding in Thailand for more than half of its revenue drop. The floods last year disrupted manufacturing of storage drives, a key component in PCs. HP said it decided to divert resources to higher-margin products, but it didn't do as well as it expected because of ongoing operational problems.

"We were not as effective as we needed to be in matching that supply with that demand," Whitman said during a conference call with analysts.

Whitman said the company will focus first on stabilizing its finances and improving its operations. She said the company needs to do better, for instance, at turning orders into products faster than its rivals.

And while she described HP as "world class" in buying components, "I'm not sure I'd say we were world class in terms of how we think end to end about supply chain."

Whitman replaced Leo Apotheker in September after a short and stormy reign. 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.

For the current quarter, the Palo Alto, Calif., company said it expects earnings of 88 cents to 91 cents per share. Analysts were expecting 95 cents per share.

HP shares fell 37 cents, or 1.2 percent, to \$28.60 in extended trading, after the release of the results. Earlier, it fell 41 cents, or 1.4 percent, to close at \$28.94.

Results were buoyed by HP's business of providing information technology services to corporations. The company's second-largest division, after PCs, saw a revenue increase of 1 percent from a year ago.

Sales from the printing division, HP's third-largest, were down 7 percent, and its profitability continued to sag. Sales of printers fell faster than ink and toner sales.

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