

Analyst: It's Time To Break Up HP

The Associated Press

SAN FRANCISCO (AP) — Hewlett-Packard Co. would be better off breaking up into two separate companies instead of tormenting shareholders by pursuing a prolonged turnaround attempt, according to an industry analyst.

UBS analyst Steven Milunovich concluded that HP should be split up after attending a management presentation that brought the company's challenges into sharper focus. At the event in San Francisco last week, HP CEO Meg Whitman predicted earnings would fall by more than 10 percent next year and cautioned that it will probably be 2015 or 2016 before revenue is growing at a decent clip again.

In a Monday research note, Milunovich argued that HP needs to take more radical — and quicker — steps to compensate shareholders who have seen the company's stock price plummet by nearly 70 percent during the past two years. The shares shed 23 cents in Monday afternoon trading to \$14.50, keeping them at their lowest levels in nearly a decade.

Milunovich believes HP is worth \$20 to \$25 per share, a value that he believes could be realized by separating HP's divisions that cater to companies and government agencies from its personal computer and printer lines. The breakup would create two companies — one devoted to selling technology consulting services and business software and the other concentrated on PCs and computer printers.

It's not an idea being considered by HP, which is based in Palo Alto, Calif.

"No matter how you look at it we are confident that HP is stronger together than apart," company spokesman Michael Thacker said. "The company's operations across business units are deeply integrated and our customers have told us that they want one HP."

If HP doesn't pursue a spin-off, Milunovich expects a leveraged buyout specialist or a group of activist investors will accumulate large stakes in the company to try to pressure management and the board to dismantle the business.

"We don't think Whitman has two years to show substantial progress," Milunovich wrote. "With money burning holes in the pockets of private equity funds and HP's problems now more transparent to investors, we would not be surprised to see someone attempt to unlock value."

HP's stock price has fallen so much that the company also could be vulnerable to a takeover attempt by a rival, although Milunovich believes that is unlikely to happen because the most likely suitors — Oracle Corp. and IBM Corp. — already sell many of the same products and services that HP does.

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