HP CEO's Turnaround Message Flops On Wall Street

Michael Liedtke, AP Technology Writer

SAN FRANCISCO (AP) — Coming off the biggest quarterly loss in Hewlett-Packard's history, CEO Meg Whitman braced investors for even more trouble ahead as she methodically tries to fix a wide range of longstanding problems. Those challenges will be compounded by a feeble economy that Whitman expects to weaken even more during the next year.

HP said the internal and economic turmoil will cause its earnings to fall by more than 10 percent next year, a decline that hadn't been anticipated by analysts who follow one of the world's largest — and most dysfunctional — technology companies.

Whitman delivered the disappointing forecast Wednesday at a meeting that the ailing Silicon Valley pioneer held for analysts and investors. The gathering gave Whitman the opportunity to persuade Wall Street that she has come up with a compelling strategy for turning around HP one year after being named CEO.

Investors evidently didn't like what they heard. HP's stock plunged 13 percent after Whitman's presentation, shoving the company's shares to their lowest level in nearly a decade.

HP's troubles stem from a combination of managerial malaise, high-priced acquisitions that haven't paid off and an inability to offset the damage done to its personal computer and printer divisions by the rising popularity of smartphones and tablet computers.

Whitman maintained that she inherited a bloated, poorly managed company that hasn't been innovating quickly enough in any of its divisions, which span from PCs and printers to software and data storage.

In a recurring theme during her tenure, Whitman said that she will instill the discipline, focus and accountability needed to rehabilitate HP, but she reiterated that the recovery will take several years to complete.

It could be 2015 before Hewlett-Packard Co.'s revenue growth begins to accelerate again, according to Whitman. By 2016, she envisions HP's revenue increasing as the same pace as the U.S. economy's overall growth, with earnings rising at a faster clip.

"It is going to take longer to right this ship than any of us would like," Whitman said.

Investors are worried HP's woes will allow its competitors — a long list that includes

such technology powerhouse as Apple Inc., IBM Corp. and Oracle Corp. — to race even further ahead. In that scenario, HP is constantly scrambling to catch up with new technology trends, leaving the company in a state of perpetual disarray.

Whitman, who won acclaim during a successful decade-long stint running eBay Inc., is confident HP can recapture the drive and creativity that established the company as an industry leader through most of its 73-year history.

She hopes to orchestrate the same kind of turnaround that has revitalized IBM after a long stretch of decay brought on by the shift from mainframe computers to personal computers in the 1980s and 1990s. IBM managed to transform itself into a company focused on providing technology services and software, a transformation that HP is struggling to duplicate.

In her shake-up of HP, Whitman has already reshuffled management and started to eliminate 29,000 jobs through employee buyouts, attrition and layoffs. She's trying to trim the company's annual expenses by more than $3 billion.

She assured analysts Wednesday that she is imposing more internal controls to align employees' paychecks with their performance. She said she is also requiring the company to subscribe to technology services offered by smaller companies such as Salesforce.com Inc. and Workday Inc. to automate many of HP's customer management and personnel systems.

HP also is reducing the number of different printers that it makes. It is also rolling out a new line of personal computers and tablets running on Windows 8, an overhaul of Microsoft Corp.'s operating system that's designed to appeal to consumers and companies that want more mobile devices with touch-control display screens.

Finally, Whtman wants HP to design another smartphone, something it did two years ago after buying Palm Inc. only to scrap the device after a few months on the market. HP's return to the smartphone business isn't planned for next year, though.

Whitman also is lacing big bets on "cloud computing" — a term that refers to the increasingly popular trend of storing software applications in remote data centers that are accessed over the Internet instead of installing programs on individual machines.

HP also is angling for a bigger piece of the "Big Data" market, a field devoted to helping companies and government agencies navigate through the torrent of information cascading through Internet-connected devices.

But the payoff from those initiatives won't come in HP's fiscal 2013, which starts Nov. 1.

The company, which is based in Palo Alto, California, expects its earnings for fiscal 2013 to range from $3.40 to $3.60 per share, after stripping out charges for layoffs and other accounting measures unrelated to its ongoing business. The projection

translates to an 11 percent to 16 percent drop from the adjusted earnings of $4.06 per share that HP expects to deliver in its current fiscal year.

Whitman's forecast for next year caught investors off guard because analysts, on average, had predicted HP's adjusted earnings would be $4.17 per share.

HP shares shed $2.22 to close Wednesday at $14.91. The stock price has fallen by 35 percent since Whitman became CEO last September.

Next year's revenue also will decrease, although HP didn't say by how much. The biggest problems will be concentrated in HP's technology consulting division, where revenue is expected to fall by 11 percent to 13 percent next year. Technology consulting also faltered during the past year, prompting HP to absorb an $8 billion charge to account for the diminished value of Electronic Data Systems, which HP bought for $13 billion in 2008.

The EDS charge is the main reason that HP lost $8.9 billion during its most recent quarter, which ended in August. Some analysts are worried HP will have to absorb another charge on an $11 billion acquisition of software maker Autonomy, which hasn't lived up to expectations since the deal closed last year. HP bought EDS while it was being run by Mark Hurd, who resigned in 2010 after the company's board raised questions about his expense reports. The company agreed to buy Autonomy during the reign of Leo Apotheker, who lasted less than a year as CEO before being replaced by Whitman.

"There are no silver bullets to solve our challenges," Whitman said Wednesday. "We will solve our challenges through consistency of leadership, focus, good blocking and tackling and, most importantly, great products and services delivered in the way that customers want to buy them."

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