HP Stock Drops After Analyst Douses Breakup Talk

The Associated Press

SAN FRANCISCO (AP) — Hewlett-Packard Co.'s stock backtracked Monday after an analyst tried to debunk speculation that the troubled technology company will be pressured into spinning off its personal computer and printer division.

THE SPARK: Deutsche Bank analyst Chris Whitmore believes it's highly unlikely HP will consider breaking itself in two, a prospect that has ignited more interest in the stock amid unsubstantiated reports that activist investor Carl Icahn has been building a stake in the company. Icahn has a history of investing in troubled companies that he then pressures into making major changes.

Although Icahn has yet to disclose a stake in HP, the intrigue raised by his potential interest in the company has contributed to a 15 percent increase in the stock price over the past three-and-half weeks.

Whitmore, though, advised investors to steer clear of HP shares because he doubts a breakup will happen and, if it did, it would do more damage than good for the company.

Although sales of HP's PC and printers have been falling as more people rely on smartphones and tablets to surf the Web, Whitmore says the company still relies on the division to generate a big chunk of its cash. That's one of the reasons HP scrapped a potential spin-off of its PC division that was floated last year by former CEO Leo Apotheker, who was also fired last year.

HP, based in Palo Alto, Calif., so far has given every indication that it intends to keep selling PCs and printers under its current CEO, Meg Whitman. At the same time, HP is increasingly focusing on making business software and providing technology consulting services — two areas that produce higher profit margins than PCs and printers.

THE BIG PICTURE: Stung by a lack of innovation and the shift to mobile computing devices, HP is in the throes of a slump that Whitman has warned could last for several years. She has cautioned it may be 2015 or 2016 before the company's revenue is rising at a healthy rate again. In the meantime HP is in the process of eliminating about 29,000 jobs as part of an effort to trim the company's annual expenses by $3 billion.

To make matters worse HP is haunted by its investments in acquisitions that haven't panned out. The company owned up to another mistake last month with the revelation of an $8.8 billion writedown of its $10 billion acquisition of business software maker Autonomy. HP said it was bamboozled into paying at least $5 billion too much by Autonomy's improper accounting practices. Autonomy founder Mike Lynch, who was ousted from HP earlier this year, has denied that any financial misconduct occurred prior to the sale's completion last year.

THE ANALYSIS: "We believe two 'mini HPs' would be less competitive and cede market share at a faster rate than the current unified structure and our preliminary (sum-of-the-parts) analysis suggest a breakup would destroy value," Whitmore wrote in a note issued at the end of last week. "As a result, we believe the recent speculation around breaking HP up will dissipate and the associated stock rally resulting from this speculation will fade."

SHARE ACTION: HP shares fell 57 cents, or 3.8 percent, to $14.18 in afternoon trading. The stock has traded between $11.35 and $30 this year.