

ANNEX BULLETIN

Annex Bulletin 2008-06

February 20, 2008

A partially OPEN CLIENT edition

Recent...

HEADLINES

[HP Beats the Street Again](#)
(Analysis of HP's 1Q08 business results)

[Capgemini's Great Valentine's Day Gift](#)
(Analysis of Capgemini's 4Q07 and FY07 results)

INDUSTRY TRENDS

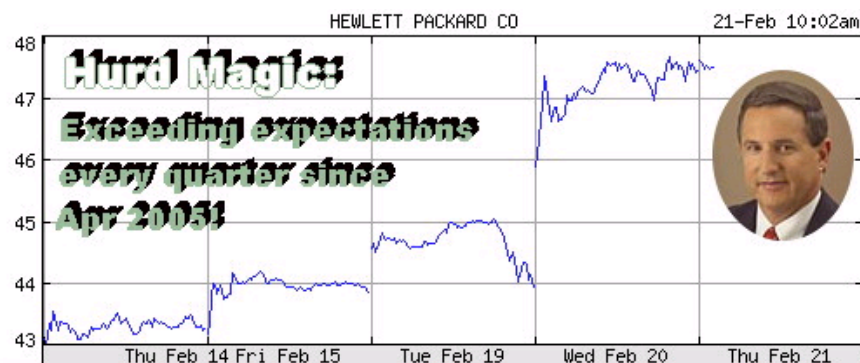
Updated 2/20/08, 5:10PM MST

Analysis of Hewlett-Packard's First Quarter FY08 Business Results

HP Beats the Street Again

Stock Surges Eight Points on Strong 1Q08, Raised Outlook

SCOTTSDALE, Feb 20 – Exceeding expectations is becoming a habit for Mark Hurd. Hewlett-Packard's CEO beat the Street for the 12th consecutive quarter with a 38% jump in net earnings and a 13% revenue surge. It's the longest winning streak for any CEO of any major IT company we follow. No wonder the HP stock soared about 8% in the aftermath of HP's first quarter release to close at \$47.44.



HP stock soars 8% on strong first quarter, raised FY08 forecast ...

But HP shares are still well off their recent peaks reached last November (\$53.68, 11/06/07). Nevertheless, the stock is up more than 24% since its 12-month low, set in March 2007 (\$38.15). In a turbulent market that has shaken the foundations of many corporate giants, such a performance is admirable. And since high tide lifts most boats on Wall Street, the strong HP quarterly report also helped lift the share of some of its major competitors (IBM, for example), though not nearly by as much.



Also check out...

[Index 1993-2008](#)



[Profit Drops, Stock Follows](#) (Analysis of EDS's 4Q07 results)

[Profit, Revenue Surge, Lifting Stock, Too](#) (Analysis of CSC's 3Q08 results)

[Services, Emerging Markets Boost IBM](#) (Analysis of IBM's full 4Q07 results)

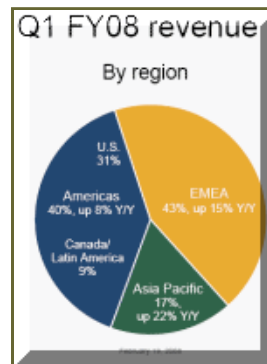
[Big Blue Shines in 4Q](#) (Analysis of IBM's preliminary 4Q07 results)

[Microsoft Still Wall Street Darling](#) (Analysis of institutional holdings of Top 10 IT Cos)

The world's No. 1 computer company said it earned \$2.1 billion, or 80 cents a share, compared with \$1.5 billion, or 55 cents a share last year. Excluding charges and one-time items, HP would have earned \$2.3 billion, or 86 cents a share. Revenue rose 13% to \$28.5 billion. This compares to the Wall Street earnings estimate of 81 cents a share on \$27.6 billion in sales in the first quarter.

HP managed a double digit growth in both revenue and earnings despite the headwinds that the U.S. and global economies face. The HP CEO appeared undaunted by such challenges.

"While I realize that macroeconomic uncertainties exist, it's important to note that we control many of the levers that drive our performance," Hurd said on the call with analysts. "We are therefore confident in our ability to meaningfully expand our earnings per share."



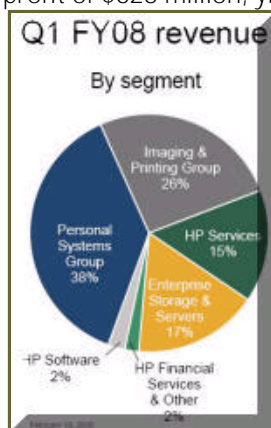
But he also added that the company "saw a little bit more caution in the consumer segment than what we have seen in the past" by the end of the quarter. On the other hand, most of HP's business comes from overseas, where the markets are less affected by the demand slowdown due to the woes of the U.S. financial sector.

"Our growth was in multiple segments and multiple markets," said Hurd, who noted that during the quarter, 69% of HP sales came from overseas.

HP said its board also authorized an additional \$3.3 billion in stock buybacks, implying it thinks the stock is undervalued. In November, HP's board approved an additional \$8 billion in share repurchases.

Business Segment Analysis

The Personal Systems' revenues rose 24% from a year ago to \$10.8 billion, as total unit shipments climbed 27%. Notebook PC sales totaled \$5.66 billion, up 37% from a year ago, and desktop revenue rose 15% to \$4.4 billion. The division reported an operating profit of \$628 million, yielding an operating margin of 5.8%, up from 4.7% a year ago.



Imaging & Printing remained HP's most-profitable business area, with an operating profit of \$1.2 billion or 15.7% of revenue, up from \$1.1 billion a year ago. Revenue for the group was up 4% from a year ago to \$7.3 billion.

But the company's consumer printer hardware unit shipments declined by 2% from last year's first quarter.

Hurd said the results were impacted somewhat by a halt in the company's production of its own digital cameras and more emphasis placed on graphic arts and commercial printing as part of HP's Print 2.0 business campaign.

HP Services revenues jumped 11% to \$4.4 billion, with outsourcing leading the surge by a 15% increase. Operating profit was \$489 or 11.2% of revenue, up from a 10.3% margin a year ago.

Among HP's other business areas, Enterprise Storage and Servers reported operating profit of \$673 million, or 14% of revenue, on \$4.8 billion in sales, up 9% from a year ago. Blade server sales soared by 81%, while "industry-standard" (Wintel) server revenue grew by 11%. Storage revenues rose 10% over 1Q07.

HP Software business saw its operating profit nearly triple from a year ago to \$51 million or 7.7% of sales, while revenues jumped 11% to \$666 million.

Outlook

For the second quarter, the company expects to earn 77 to 78 cents a share on revenue in a range of \$27.7 billion to \$27.9 billion. Excluding one-time items, HP estimates it will earn between 83 cents and 84 cents a share. Analysts had forecast HP to earn 82 cents a share on \$27.4 billion in sales.

For the full year, the company expects revenues of about \$114 billion, with net earnings in the \$3.26 to \$3.30 per share range.

In short, the economic head wind that the company is facing, along with its other major competitors, doesn't appear to be slowing down much HP's growth much. So exceeding expectations and beating the Street appears to be the likely scenario in the near future, as it has been for the last dozen quarters.

Annex Clients: [CLICK HERE](#) for detailed HP P&L tables & charts

Happy bargain hunting!

Bob Djurdjevic

 [Click here for PDF \(print\) version](#)



For additional Annex Research reports, check out... [Annex Bulletin Index 2008](#)
(including all prior years' indexes)



Or just click on [SEARCH](#) and use "company or topic name" keywords.

Volume XXIII, Annex Bulletin 2008-06
February 20, 2008

Bob Djurdjevic, Editor
e-mail: annex@djurdjevic.com

8183 E Mountain Spring Rd, Scottsdale, Arizona 85255
Tel/Fax: +1-602-532-7789

(c) Copyright 2008 by Annex Research, Inc. All rights reserved.
*The copyright-protected information contained in the ANNEX BULLETINS is part of the
Comprehensive Market Service (CMS). Any reproduction is prohibited.*

[Home](#) | [Headlines](#) | [Annex Bulletins](#) | [Index 1993-2008](#) | [Special Reports](#) | [About Founder](#) | [Search](#)
| [Feedback](#) | [Clips](#) | [Activism](#) | [Client quotes](#) | [Speeches](#) | [Columns](#) | [Subscribe](#)