

ANNEX BULLETIN

Annex Bulletin 2008-17

August 19, 2008

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Updated 8/19/08, 2:40PM PDT

Analysis of HP's Third Quarter Business Results

"Beat the Street" Drumbeat Continues

Stock Up After-Hours as Company Again Blows Wall Street's Revenue, Profit Estimates Out of Water

SCOTTSDALE, Aug 19 – At HP, “beat the Street” continues to be the drumbeat to which the company dances every quarter. Once again, HP has exceeded Wall Street estimates for both profits and revenues. It has done so consistently ever since Mark Hurd took over as CEO over three years ago. Third quarter revenues were up 10% to \$28 billion (vs. \$27.4 billion analyst average estimate), while net earnings were \$0.86 per share (vs. \$0.83 Wall Street expectations).

HEWLETT-PACKARD CO
as of 18-Aug-2008



**HP shares up 2.5%
in after-hrs trading**

HP's "Beat the Street" Drumbeat Continues in 3Q; stock up after hrs

This time, however, HP got a little help from the weak dollar. With 68% of its business coming from outside the U.S., the company had strong financial tailwinds in both Europe (11% boost) and Asia/Pacific (6% boost). But even in constant currency, HP managed to grow its business in all three major geographies (up 3% in the Americas, up 5% in Europe and up 8% in A/P).

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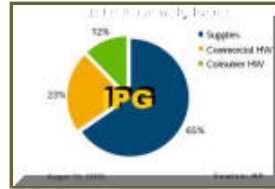
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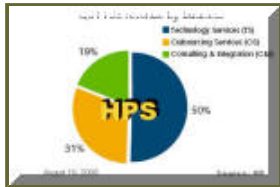
[Capgemini's Great Valentine's Day Gift](#)

Furthermore, revenues from emerging markets, such as the so-called "BRIC countries" (Brazil, Russia, India and China) grew 24% over the prior-year period and accounted for 10% of total revenue. Cathie Lesjak, the HP CFO, said the company had a triple digit growth in Russia, where HP is an important supplier to the country's burgeoning energy sector, among others.

If there were a blemish in HP's latest results, that would be a growth weakness in the Imaging and Printing Group (IPG), whose revenue grew only 3% to \$7.0 billion. Within this total, supplies revenue grew 11%, while commercial hardware revenue *declined* 5% and consumer hardware *dropped* 14%. Printer unit shipments *declined* 2% year over year. Yet, despite the disappointing revenue figures, HP still managed to generate operating profit of \$1.0 billion, or 15.0% of revenue, versus \$981 million, or 14.5% of revenue last year.



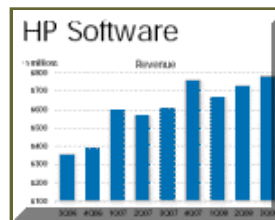
The HP Services' revenue growth was impressive and well balanced across its horizontal lines of business. Technology Services grew 13%, while Consulting and Integration and Outsourcing Services were up 13% and 18% respectively. Services' operating profit was \$574 million, or 12.1% of revenue, up from \$417 million, or 10.0% of revenue, in the prior-year period. All this bodes well for the completion of the EDS merger.



The EDS acquisition is "going well," according to Mark Hurd, HP's CEO. There are 500 people working on the deal that is expected to close later this month. "We are confident in the benefits this (merger) will bring to customers and shareholders" of both companies, he added.

"Services many times is counter-cyclical in an economic environment where as economies go through some tougher times," Hurd said, answering an analyst question about the reasons for such a strong performance. "There is more opportunity for services companies, particularly in outsourcing."

"But make no mistake about it: We are going to execute on the EDS acquisition," he added, pointing out the strengths that HP will bring to the newly constituted services unit after the merger is complete. "We're going to bring the strength of HP's operating discipline, the strength of HP's innovation, the strength of HP's position in the marketplace - to make a combined business quite competitive."



But it was the HP Software, the company's smallest operating unit, that turned in the best quarterly performance. HP Software revenue grew 29% to \$781 million, led by 32% growth in the Business Technology Optimization portfolio. Operating profit was \$122 million, or 15.6% of revenue, up from \$51 million, or 8.4% of revenue, in the prior-year period.

Summary

So it looks like HP, like IBM, seems impervious to the economic tumult that the financial crisis in the U.S. has whipped up since a year ago. The disappointing third quarter growth performance of the HP printing and imaging unit, which depends heavily on consumer demand, is the only indication so far of its possible vulnerability, should the financial problems spread to consumers around the world. But overall, we expect HP to continue to meet or exceed investor and shareholder expectations.

HP also issued an optimistic outlook for the current quarter, its fourth fiscal period of

(Analysis of Capgemini's 4Q07 and FY07 results)

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

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2008, trying to quell recent investor worries that its overseas business will be hurt by the strengthening U.S. dollar and a possible sales slowdown in China. The company said it expects revenue for the current quarter of between \$30.2 billion and \$30.3 billion and earnings per share of 95 cents to 97 cents.

Happy bargain hunting!

Bob Djurdjevic

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