

ANNEX BULLETIN

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INDUSTRY TRENDS

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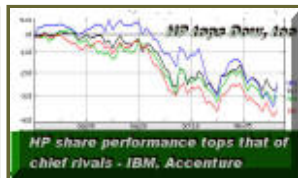
HP Releases Preliminary Fourth Quarter FY08 Results

HP Fails to Lift Market

HP Takes Page Out of IBM Playbook; "A Tale of Two Blues" updated

"Where ignorance is bliss, 'tis folly to be wise" (Thomas Gray, 1716-1771)

SCOTTSDALE, Nov 19 – HP took a page out Big Blue's playbook when it announced yesterday preliminary results for its fourth quarter of fiscal year 2008. News was good. Revenues were up 19% year-over-year, or 16% adjusted for currency. But without EDS, HP's revenue grew 5% on an organic basis, or 2% adjusted for currency.



So like IBM five weeks ago, HP tried to rush it to the beleaguered stock market ahead of the scheduled Nov 24 release date. HP stock soared over 14 points to close at \$33.59 yesterday. Yet that still puts it down about 32% for the year, slightly better than the Dow Jones Industrials average, of which it is a part. And just like IBM back in October (see "[Fear Trumps Fact](#)," Oct 9), HP failed to lift the market. Its stock is down today half way through the trading session. Once again, FEAR TRUMPS FACT.

"In a market driven by fear, logic and reason can be dangerous to your financial health," we said in our Oct 9 report. Or, as Thomas Gray put it more than two centuries ago, "where ignorance is bliss, 'tis folly to be wise" (Thomas Gray, 1716-1771). We added that, "there is a total disconnect at the moment between the stock market and the business fundamentals."

Ditto, ditto, ditto... we can add today, in the aftermath of HP's 4Q report.

IBM vs. HP: A Tale of Two Blues

Recent...

HEADLINE

[HP Fails to Lift Market](#)
(HP lifts page out of IBM playbook; "A Tale of Two Blues" updated)

[Facts Fight Back](#)
Fears (IBM releases detailed third quarter results)

Also check out...

[Index 1993-2008](#)



[Fear Trumps Fact](#) *(Total disconnect between stock market and IBM business fundamentals)*

[Accenture's "Par Excellence" Quarter](#)
(Blowout 4Q lifts Accenture over EDS to # spot in IT services world)

[Just Say No to Greed](#)
21 (Proverbial IT babies being thrown out with Wall St bathwater)

["Beat the Street" Drumbeat](#)
Continues (Analysis of HP's 3Q08 business results)

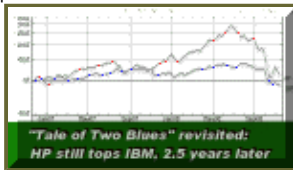
[Big Blue Stock Sags on "No News" Days](#) *(Analysis of IBM institutional shareholdings)*

[IBM Delivers Explosive Quarter](#) *(Big Blue firing on all cylinders - analysis of 2Q08 results)*

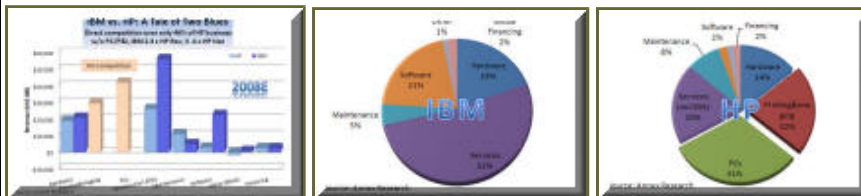
[MacAttack Falters at Foot of Mount Vista](#) *(A story about yet another attempt to break away from Windows)*

[Minting "Green" into Greenbacks](#) *(An update on our five-year forecast for IBM)*

Meanwhile, as we await the detailed business segment results, which HP is due to release on Nov 24, we thought we'd update our "[Tale of Two Blues](#)," which we originally published in June 2006. Back then, like now, IBM stock was down in the dumps. And the company tried to resuscitate it by inviting the Wall Street analysts to its first ever meeting in Bangalore, India.



Well, two-and-a-half years later, the picture is still the same. IBM shares have had their run, peaking at about \$130 in late July. But now they are back down in the 70s, as they were when we wrote the first chapter of the "[Tale of Two Blues](#)."



Yet, much has changed in the size and structures of the two blue companies. For one thing, HP is now bigger than IBM. With the EDS acquisition added to its current size, we figure that HP is now about a \$130 billion company. Our estimate of IBM 2008 revenues is around \$108 billion.

Because of HP's EDS and some software acquisitions since 2006, IBM and HP now compete across a broader spectrum of businesses. Yet the overlap still accounts for only 46% of the HP revenues (vs. 40% in June 2006). The \$73 billion remainder are the PC and printing businesses that IBM does now compete in (see above charts).

As a result, despite HP's overall bigger bulk, IBM revenues are 2.3 times bigger than HP's in the business in which the two companies compete. And IBM's net earnings from those operations are about 3.4 times larger than HP's.

Summary & Outlook

So the IBM and HP figures may be a little different from 2.5 years ago, but the overall conclusions are the same. IBM is both bigger and more profitable than HP, but you'd never know it if you compare the two stock charts. The gun-shy Wall Streeters don't seem to care much for things like profits and margins anymore. As we said back in October, "there is a total disconnect at the moment between the stock market and the business fundamentals."

So it's best to suspend logic and reason for the moment. Eventually, however, Wall Street does tend to get things right. So this is no time to panic and sell, as some "gurus" are urging.

Jim Cramer, for example, of TheStreet.com and CNBC TV, wrote on Nov 13 that, "the [past performance](#) of IBM's stock is of no real importance when looking out two or three years. The reality is that there is a budget freeze in nearly every type of corporation around the planet, despite IBM management's assertion that long-term contracts will uphold margins. It may take considerably longer than a year for corporations to come back on line for IBM's products and services. So it's difficult to believe management's upbeat forecasts. [History](#) points to Big Blue as recession-sensitive (see "[The Good, The Bad and The Ugly](#)", Nov 13)

Now, check out the two contradictory statements we highlighted in [blue](#) above. Because

[Better Late Than Never](#)
Analysis of a rumored HP takeover of EDS

[IBM "Places" By a Nose over Google](#) - Analysis of Top 20 IT Cos stock and business performances

[Big Blue Takes Chill Off Wall Street's Spring](#)
(Analysis of IBM's first quarter business results)

[Just Say NO to Greed - Killer of Dreams!](#) (An editorial comment about subprime financial crisis)

[The z10 Lifts "Big Green"](#) (Analysis of IBM new mainframe announcement)

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

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

[Profit Drops, Stock Follows](#) (Analysis of EDS 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 result)

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

Cramer has already made up his mind that IBM is a bad investment, he is panning the past stock performance. But then he uses the past when it suits his argument that IBM is "recession-sensitive."

Which reminds us of that famous trial lawyer who finished his summation to the jury with the following remarks: "And those, ladies and gentlemen of the jury, were the conclusions upon which I based my facts." :-)

Annex Clients: [CLICK HERE](#) for detailed IBM vs. HP tables & charts

Happy bargain hunting!

Bob Djurdjevic

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