

As U.S. Cools, World Demand Helps HP Outpace Rivals

By Matt Richtel

NYT November 20, 2007 SAN FRANCISCO, Nov. 19 — Buoyed by its heavy international presence, Hewlett-Packard appears to have sidestepped the softening demand from corporations inside the United States for new technology.



F. Carter Smith/Bloomberg News

Fig. 1 - At a Hewlett-Packard factory in Houston where servers and data storage units are produced.

In recent weeks, companies including Cisco, I.B.M. and Network Appliances have warned that American corporations are tightening their purse strings when it comes to technology spending. On Monday, Hewlett-Packard, the world's largest technology company, not only reported strong fourth-quarter net profit and sales, but also predicted further growth in the months ahead.

In conference calls with reporters and industry analysts, Mark V. Hurd, the chief executive, declined to answer directly whether H.P. is seeing softening in demand among corporate customers in the United States. Over all, he said, "we're seeing fairly steady demand."

He also said: "I don't want to be confused with an economist in any way, shape or form."

Hewlett-Packard, he also noted, does not depend on the financial industry for a significant portion of its sales.

Wall Street analysts said that the results, which beat their projections, reflected the diversity of H.P.'s business geographically and in terms of its reliance on selling to consumers, not just corporations.

"This is very different from what we heard from I.B.M. and Cisco, in particular," said Shaw Wu, an analyst with American Technology Research. "H.P. continues to execute in this very tough environment. The key reason is that they're very global."

Mr. Hurd, known for giving conservative forecasts to analysts, predicted revenue for 2008 would rise about 7 percent to about \$111.5 billion. The new forecast exceeded industry analysts' predictions.

For H.P.'s fourth quarter, ended Oct. 31, the company reported revenue of \$28.3 billion, and net income of \$2.8 billion, or 86 cents a share, a figure that does not include one-time charges.

In the fourth quarter a year ago, H.P. reported net income of \$1.9 billion, or 68 cents a share, and revenue of \$24.55 billion. For its full fiscal 2007, H.P. reported revenue of \$104.3 billion and net income of \$8 billion, or \$2.93 a share, excluding one-time charges.

A. M. Sacconaghi, an industry analyst with Sanford C. Bernstein & Company, called the fourth-quarter and fiscal 2007 earnings "very solid," adding: "They beat handily and raised guidance, which investors always cheer."

The company's shares, which fell with the overall market Monday during regular trading, rose 86 cents in after-hours trading to close at \$50.30. The company also announced a plan to buy back \$8 billion of its shares.

Unlike many technology companies — which do roughly 60 percent of their business domestically — H.P. does around 65 percent overseas, industry analysts said. Dell, its chief competitor, does only about 35 percent of its business internationally, Mr. Wu said.

Despite its recent success, the question for a company as large as H.P. is where it can find opportunities that will satisfy investors' interest in seeing continued growth at a rapid pace. Mr. Hurd has frequently warned analysts that the law of large numbers makes it increasingly difficult for the company to add \$7 billion to \$8 billion in new revenue each year.

Mr. Hurd said in a conference call with Wall Street analysts that he would continue to seek businesses with growth potential, but that he would also keep pursuing a program of cost cuts and efficiency improvements and would then reallocate resources to the growth sectors.

At the two largest individual business divisions, sales rose 30 percent, to \$10.1 billion, in the personal systems group, which sells PCs to consumers and corporations, but they were up only 4 percent, to \$7.6 billion, in the imaging and printing group.

"PC's continued their torrid success," Mr. Sacconaghi said. "The only mild disappointment was in the imaging and printing group."

The performance in computers could underscore continued trouble for Dell, HP's chief competitor, which reports its financial results next week. Sales of H.P. notebook computers rose 49 percent in the fourth quarter, Mr. Hurd said.

While Mr. Hurd declined to discuss the relative performance of corporations in the United States, H.P. did see more modest growth in North America in the fourth quarter than it did in its overseas markets.

Excluding currency effects, growth in North America was 10 percent, to \$11.9 billion, compared with the period a year ago. Sales grew 19 percent in Europe, the Middle East and Africa, to \$11.6 billion, and in the Asia-Pacific market they were up 20 percent, to \$4.8 billion.

H.P. estimated that for its first quarter of 2008, sales would be \$27.4 billion to \$27.5 billion, and net income would reach 80 cents a share, not including one-time charges.

Wall Street analysts were hoping H.P. would shed more light on overall economic conditions and on the spending patterns of American companies.

"The investment community is anxious about what's happening in large corporate I.T. spending," Mr. Sacconaghi said. "Even if it's limited now to U.S. financial services companies, it could spread."