HP Nearing A Deal With EDS

Brandon Bailey

Mercury News Article Launched: 05/12/2008 12:47:19 PM PDT Tech giant Hewlett-Packard today confirmed that it is in advanced discussions with Electronic Data Systems to acquire the Texas-based company, and the news sent EDS stock shooting upward today.

The Wall Street Journal said the acquisition price could be between $12 billion and $13 billion. Spokesmen for EDS, which was founded by Ross Perot, did not immediately respond to requests for comment.

Though HP is known especially for its personal computers and printer business, the company has been expanding its business consulting and customer support services. EDS, which started by buying unused time on corporate customers' mainframe systems, provides a range of business technology services.
If completed, the deal would be HP's largest acquisition since it bought PC-maker Compaq for $20 billion in 2002.

Hewlett-Packard Said to Be Close to Buying E.D.S.

Matt Richtel And Andrew Ross Sorkin

NYT May 13, 2008 SAN FRANCISCO — The Hewlett-Packard Company, the personal computer and printer maker, is close to a deal to acquire the Electronic Data Systems Corporation, the operator of corporate computer systems, for $12.6 billion in cash, people involved in the transaction said Monday.
The price of $25 a share would represent a 32.5 percent premium to Electronic Data Systems' closing price of $18.86 on Friday.

Both sides were in the final stages of negotiations, these people said, with Hewlett-Packard's board planning to meet Tuesday morning to approve the transaction. Still, these people cautioned, the agreement could be postponed or collapse.

Hewlett-Packard confirmed Monday that it was "engaged in advanced discussions" with E.D.S. for a possible business combination, but said "there can be no assurances that an agreement will be reached or that a transaction will be consummated."

A deal would make H.P. the second-largest player to I.B.M. Such a merger would be Hewlett-Packard's largest since it acquired Compaq for $20 billion six years ago.

Hewlett-Packard, based in Palo Alto, Calif., has not been averse to making acquisitions in recent years. Mark V. Hurd, the company's chief executive, has been vigorously adding software and services companies to take on I.B.M. in a ruthlessly competitive business of managing data centers and the data processing of large corporations.

The business has long been rough — with competitors eking out low profit margins — but it has become particularly challenging in recent years as companies award contracts to outsource work to overseas companies, notably in India, that pay lower wages.

The services businesses is attractive to I.B.M. and H.P. because it is a fast-growing global business valued at about $748 billion by Gartner, a market information firm. Hewlett-Packard has lagged behind I.B.M., the industry's leader with around $54 billion in annual revenue. It is followed by E.D.S., which has around $22 billion in revenue.

Hewlett-Packard, meanwhile, had around $16.6 billion in revenue from services in 2007. Size matters in this business, because a larger company can have people in place across the globe to provide the services. The question is whether an acquisition of E.D.S. would give Hewlett-Packard the inside track it is looking for in competing against I.B.M. and other rivals. And the answer on Monday from Wall Street analysts was a decidedly mixed one. Hewlett-Packard's stock price seemed to reflect the uncertainty, falling after news of a potential deal began to circulate. The stock closed at $46.83, down nearly 5 percent.

Shares of E.D.S. closed at $24.13, up 28 percent from Friday's close.

"It's a very significant combination," said Ben Pring, a research vice president in the IT Practices Group at Gartner. But "people who are skeptical of big integrations will have a field day around this," he said. "It's putting together two large businesses with two different heritages. It's going to be a big culture clash."

E.D.S. has a storied past. Founded in 1962 by H. Ross Perot, it pioneered the outsourcing of data management as well as the management of entire data centers. In 1984, he sold the company to General Motors, but it was a rocky relationship and he left the company two years later. G.M. spun off E.D.S. in 1996.

E.D.S., based in Plano, Tex., is comfortable with acquiring and integrating new operations because that is its business. Hewlett-Packard successfully integrated Compaq and has reorganized its core businesses to cut costs and provide cash for growing businesses. Business services had been a laggard division for H.P., but Ann M. Livermore, the executive vice president responsible for what the company calls its Technology Solutions Group, has made it profitable and made its growth rate match the rest of the company.

H.P. has acquired a string of enterprise software companies in recent years, including Mercury Interactive, Opsware and Neoware. (Several years ago, H.P. considered purchasing P.W.C., a major consulting firm, only to lose it to I.B.M.)

But the size of the proposed merger with E.D.S. would pose more daunting challenges. E.D.S. has 140,000 employees to H.P.'s 172,000. About two-thirds of the E.D.S. employees are located in the United States, which means Hewlett-Packard would be buying a relatively expensive work force compared to the fast-growing lower-cost competition based overseas, said A. M. Sacconaghi Jr., an industry analyst with Sanford C. Bernstein & Company.

Mr. Sacconaghi said that while he shared some of the skepticism of the deal, he thought H.P. might try to justify the acquisition on the basis that E.D.S. had fallen out of favor, and that this was the right time to make a deal.

In the last year, the stock has fallen steadily from around $28.

"This is bargain-hunting," Mr. Sacconaghi said. "This is H.P. saying, 'We see a cheap asset.' "

Chris Whitmore, an analyst with Deutsche Bank, noted that E.D.S. had grown marginally, to around $22 billion in annual revenue, from $19.8 billion in 2003. And E.D.S.'s operating margins have been around 6 percent, about half of that of Hewlett-Packard; neither of those figures is particularly impressive, though the operating profits in the services businesses tend to be modest. I.B.M.'s service's margins are a little higher than 10 percent, analysts said.

Mr. Whitmore said that he was surprised by the prospect of a deal because such a major integration can be so distracting, particularly because, he said, H.P. has done such a fine job of re-organizing its business in the last few years.