

H.P. Offers More Detail on Increase in Revenue

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NYT May 21, 2008 SAN FRANCISCO — The weak dollar has its detractors, but it is working out just fine for Hewlett-Packard.

In an earnings report on Tuesday, H.P. said it did 70 percent of its sales overseas in the last quarter, benefiting from the relative strength of foreign currencies. That helped insulate it from an apparent stagnation in domestic sales amid a weak economy.

Some Wall Street analysts said the report indicated United States sales had actually shrunk.

Mark V. Hurd, the chief executive, said he remained cautious about the company's near-term prospects at home.

“The U.S., to be specific, was spotty,” Mr. Hurd said in a conference call with investors. “I wouldn't describe it as all good, but I wouldn't describe it as all bad either.”

The report added some details to the highlights H.P. released last week, when it disclosed its plans to spend \$14 billion to buy Electronic Data Systems, the services company.

H.P. said its profits for the second quarter, which ended April 30, were \$2.1 billion, up 16 percent from a year ago. Operating profits for the quarter were \$2.6 billion, or 80 cents a share. The company reported sales of \$28.3 billion, an increase of 11 percent from the period a year ago. Adjusted for currency fluctuations, the growth rate was 5 percent.

Sales in the Americas, including the United States, were up 4 percent from a year ago, to \$11.1 billion. But the increase was just 2 percent when currency changes are taken into account.

Sales grew 16 percent in Europe, the Middle East and Africa, reaching \$11.9 billion, but they were up just 6 percent when currency-adjusted. Sales rose 16 percent in Asia Pacific, to \$5.2 billion; the adjusted increase was 7 percent.

Toni Sacconaghi, an industry analyst at Sanford C. Bernstein & Company, said that when the currency benefits are not added in, H.P. has been showing a steady decline — from 12.2 percent in the third quarter of last year to around 5 percent this quarter.

H.P. said laptop sales increased 31 percent in the quarter, while the sales of desktop computers were little changed. The company's imaging and printing group grew 6 percent, while its enterprise storage and server business was up 4 percent. That is a business H.P. hopes to expand further with its proposed acquisition of E.D.S.

In his conference call with investors, Mr. Hurd shed little new light on the E.D.S. deal or its timing. He declined to say when the deal could close, something investors have been eager to know.

Hewlett-Packard's stated rationale for buying E.D.S. is to become more competitive in the services business, which entails providing technical and infrastructure support to corporations. The leader in the field is I.B.M., which has some \$54 billion in annual sales. E.D.S. has \$22 billion in sales at its services

business and H.P. \$16.6 billion; the combination would create the second-biggest player in what Gartner Group, a market research firm, estimates is a \$748 billion global market.

Analysts said the E.D.S. business has margins of around 6 percent, compared with the services businesses at H.P. and I.B.M., which have margins of around 10 or 11 percent.

“Make no mistake, we will get the cost out and we will create value for shareholders,” Mr. Hurd told investors.

Shaw Wu, an industry analyst with American Technology Research, said he had been getting questions from institutional investors about whether and how H.P. could smoothly integrate the companies in a way that justified the price.

“That’s the question I’m getting: How do we know they’re going to pull this off?” Mr. Wu said.

Shares of H.P. fell 25 cents, to \$46.46 in regular trading and an additional 30 cents in after-hours trading.