

HP Posts \$2.1 Billion Profit For Fourth Quarter

Brandon Bailey

Mercury News Posted: 11/24/2008 01:25:01 PM PST Even while performing better than expected in the last quarter, Hewlett-Packard is girding for a tough economy in the year ahead.

The world's largest computer maker announced Monday that it earned \$2.1 billion in profit on \$33.6 billion in sales during the company's fourth quarter, which ended Oct. 31. The results were better than analysts had expected, amounting to a 2 percent drop in profit but a 19 percent surge in revenue compared with the same period in 2007.

While offering a relatively strong forecast for the coming year, the company acknowledged some effects of the recent economic slowdown. Revenue from laptop computers and business and tech services grew significantly in the last quarter, but sales of printers and some categories of computer servers were down. HP is forecasting that its revenue and profit will grow in 2009, though at slower rates than in 2008. Its revenue for the last quarter got a significant boost from EDS, the giant Texas-based tech-services company that HP bought for \$13.9 billion earlier this year. Without EDS, HP said its revenue grew by just 5 percent over the same quarter in 2007.

"The market is getting tougher and less predictable," chief executive Mark Hurd told analysts on a conference call, while adding that he's confident the company can increase both its earnings and market share over the next fiscal year. The Palo Alto company sells personal computers, printers, servers, software and tech services in markets around the world.

Hurd said the company will reduce its operating costs by \$1 billion in the 2009 fiscal year through layoffs and other cuts that HP announced after it bought EDS. In addition to those efforts, Chief Financial Officer Cathie Lesjak said Monday that HP is reducing travel and hiring and will make other cuts if necessary.

HP's operating margin dropped to 8.2 percent for the fourth quarter, from 9.3 percent the previous year.

After excluding certain one-time charges, however, HP said its operating margin improved from 9.9 percent to 10.1 percent for the quarter.

Despite the global economic slowdown, HP made a strong showing last week when it released preliminary earnings figures that showed it was still seeing growth when other big tech companies have been reporting lower sales.

While overall profit declined slightly, the company's earnings per share increased to 84 cents, from 81 cents in the same period last year, because fewer shares are in the market.

Analysts say HP is less vulnerable to the overall economic slowdown than some of its competitors because it sells a wide range of products around the world. HP said 68 percent of its revenue in the last quarter came from sales outside the United States.

The company said revenue from laptop computers rose by 21 percent to \$6.3 billion in the last quarter, which more than made up for a 2 percent drop in sales of desktop models. Printer shipments fell by 8 percent, but revenue from ink and other printer supplies grew 9 percent to \$4.8 billion.

Hurd said he doesn't mind if new printer sales are slow, as long as customers aren't buying printers from competitors, because HP makes a greater profit from selling ink and supplies to customers who are still using its older printers.

HP's stock closed Monday at \$35.70, up more than 3 percent for the day, but fell to \$35.35 in after-hours trading.

Contact Brandon Bailey at bbailey@mercurynews.com or (408) 920-5022.