

Hewlett Says Its Earnings Jumped 51%

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Hewlett-Packard said Tuesday that strong sales of laptop computers and printer supplies along with cost-cutting helped push its quarterly profit up 51 percent. The company also said its market share in personal computers increased 1.4 percentage points.

The quarter reflects a strategy by Mark V. Hurd, Hewlett's chief executive, to balance revenue growth with increased profits. In almost all its divisions, including those with flat or declining revenues, the company improved its profit margins.

"This was emblematic of the H.-P. story today -- very good execution and a focus on cost," said A. M. Sacconaghi Jr., senior research analyst with Sanford C. Bernstein & Company.

Hewlett's net profit for the second quarter rose to \$1.46 billion, or 51 cents a share, compared with \$966 million, or 33 cents a share, a year earlier. Revenue for the quarter rose 5 percent, to \$22.6 billion. The company said revenue would have risen 8 percent if not for the weak dollar, which cut into the effect of overseas sales.

The net profit and revenue, reported after the market closed, exceeded company projections as well as analysts' estimates. In after-hours trading, the stock rose more than \$1 after closing at \$31.11, down 52 cents, in regular trading.

The company, which is based in Palo Alto, Calif., continued to show strength in its PC business, where operating profit increased 69 percent as revenue grew 10 percent.

The key was laptop sales, which increased 27 percent.

Hewlett said it was making more money on each PC sale. Profit margins in the PC unit increased to 3.6 percent, from 2.3 percent a year earlier.

The 1.4 percentage point increase in Hewlett's PC market share received more attention than usual because Dell, Hewlett's larger rival, recently began aggressive price cuts on some of its models to gain share. Dell, which will report its earnings on Thursday, has already said that its profit will be lower than analysts had expected because of the price cuts.

Analysts are watching to see how much Hewlett will have to cut its PC prices to hold market share and whether that will affect profit margins. Mr. Hurd had an answer. Even though the company gained market share, "it is not our sole objective," he said in a conference call with analysts and investors. "Our objective is to run a better business."

He said the improvement in the PC unit had been steady. "It predates me," he said. "It is just one more installment."

"It is really important for us to be strong across the company," Mr. Hurd said. Because PC's contribute only about 30 percent of Hewlett's revenue, in contrast to 60 percent for Dell, price-cutting in PC's has less impact on Hewlett's profitability, analysts say.

Instead, Hewlett's earnings are largely driven by the performance of its printing unit, where revenue grew 5 percent, to \$6.7 billion, in the latest quarter. The printing business provided about \$1 billion in operating profit, up 23 percent

from the year-earlier period. Profit margins in that unit were up to 15.5 percent, up from margins a year earlier of 12.7 percent.

The margins rose markedly, said Richard Gardner, an analyst with Citigroup Global Markets, because the company cut prices on some of its most popular printers -- business inkjets and all-in-one printers -- about a year ago. Two Hewlett rivals, Lexmark and Canon, have fumbled in that category, he said. Hewlett "has had the most profitable segments all to itself," Mr. Gardner said.

Hewlett's price cuts increased sales, and now the owners of those machines, which use a lot of ink to create documents or print photographs, are buying a lot of replacement ink cartridges. Revenue from those ink supplies rose 10 percent, the company said.

Mr. Hurd told analysts on Tuesday that he expected to see "accelerated unit growth" in the printing unit in the third quarter.

The analysts expect Hewlett's performance to continue to improve through the next two quarters as the impact of the cost-cutting is felt on the bottom line. The company cut 1,600 jobs in the second quarter, and it is only a little more than halfway through its plan to eliminate 14,500 jobs.

At the same time, Mr. Hurd said the company planned to hire hundreds of salespeople in the next several months to expand its sales to corporate customers.

For the third quarter ending July 31, the company expects earnings of 41 cents to 44 cents a share. Hewlett also said it expected revenue for the full year of about \$91 billion, compared with \$86.7 billion in 2005.