

## HP's 2Q09 Results Dim Hopes for Imminent IT Industry Recovery

Martin Reynolds, David W. Cearley

HP's 2Q09 earnings results reflect the company's strategy during the economic downturn. This includes strategic and tactical cost-cutting to maintain margins, and squeezing inventory and supply chains to release cash.

## NEWS ANALYSIS

---

### Event

On 19 May 2009, HP announced the results of its second fiscal quarter, which ended 30 April 2009, reporting earnings per share of \$0.86 according to generally accepted accounting principles (GAAP), with net revenue of \$27.4 billion.

### Analysis

HP's second-fiscal-quarter results reflect the dismal state of the global economy as of late April 2009 and offer no meaningful signs of an IT industry recovery. Buyers continue to cancel and defer hardware purchases, resulting in substantial declines in HP's sales of standard and advanced servers (down 29%), personal computers (down 19%), printers (down 23%) and storage offerings (down 22%). The decline in sales of blade servers (down 12%) and notebook computers (down 13%) reflects the market's limited appetite for new technologies. HP CEO Mark Hurd did state that China, and U.S. consumers, looked slightly better, an assumption Gartner is working into our forecasts.

PC purchases are an indicator of whether consumer spending is recovering, which is a necessary precursor for economic recovery. HP's report of flat sales of PC units reflect a substantial decline in prices as buyers opt to purchase lower-priced products. Global consumers have experienced the rise in the value of the U.S. dollar as a price increase, which drives them to buy downmarket. Gartner expects the consumer PC market to exhibit the first signs of recovery for the IT industry, but HP's revenue from this market is still down 16%.

Service revenue is a bright spot in HP's earnings results. For the first time in HP's history, the vendor reports that services are the single largest operating unit by revenue. Global revenue from the company's EDS acquisition has dropped by approximately 12% (6% in local currency), according to Gartner's estimate; nonetheless, it has helped fill the gap left by the systems market, enabling HP to report 3% growth in local currency (down 3% in U.S. dollars). HP's overall services business delivered a healthy \$1.17 billion in profit, despite its struggle against a stronger dollar and weak market, evidence that the acquisition is working. Gartner believes that HP achieved about a third of its services profits through a one-time, one-month 10% pay cut for EDS employees in April 2009, compounded with a companywide 5% pay cut for most salaried employees. This cost-cutting strategy is a necessary and effective response to the economic downturn, and will enable HP to maintain its options for growth ahead of the recovery. Overall, we estimate that HP's revenue is down approximately 18% compared with revenue earned by EDS and HP separately as of April 2008. This drop emphasizes HP's exposure to volatile systems markets, and underscores its need to move from tactical IT purchases to strategic business relationships.

## RECOMMENDATIONS

---

### Enterprises:

- Continue to plan for the economic downturn. Gartner sees no evidence of resumed consumer spending levels in HP's results; we interpret the lack of movement as an unsurprising bad sign for the global economy.

- Do not be surprised by a recovery. HP recognized some improvement in the Chinese and the U.S. consumer markets. If opportunities arise during 2Q09 and 3Q09, the IT industry must be ready to support growth requirements.

## RECOMMENDED READING

---

- "Vendor Rating: HP" — HP is expanding beyond its traditional domain of hardware and software offerings and growing its service business, changing its profile in the IT market. **By David Cearley and others**
- "It's Time to Prepare for a Return to Business Growth" — Gartner advises our clients to ignore the negative financial press coverage and prepare for a return to business growth, regardless of when that growth actually returns. **By Ken McGee and Mark Raskino**

(You may need to sign in or be a Gartner client to access the documents referenced in this First Take.)

## REGIONAL HEADQUARTERS

---

### Corporate Headquarters

56 Top Gallant Road  
Stamford, CT 06902-7700  
U.S.A.  
+1 203 964 0096

### European Headquarters

Tamesis  
The Glanty  
Egham  
Surrey, TW20 9AW  
UNITED KINGDOM  
+44 1784 431611

### Asia/Pacific Headquarters

Gartner Australasia Pty. Ltd.  
Level 9, 141 Walker Street  
North Sydney  
New South Wales 2060  
AUSTRALIA  
+61 2 9459 4600

### Japan Headquarters

Gartner Japan Ltd.  
Aobadai Hills, 6F  
7-7, Aobadai, 4-chome  
Meguro-ku, Tokyo 153-0042  
JAPAN  
+81 3 3481 3670

### Latin America Headquarters

Gartner do Brazil  
Av. das Nações Unidas, 12551  
9º andar—World Trade Center  
04578-903—São Paulo SP  
BRAZIL  
+55 11 3443 1509