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Is HP Getting Ready for a Really Big Move?

HP announced that it is merging two of its big divisions: the Personal Systems Group (PSG) and the Imaging and Printing Group (IPG), with the resulting group being lead by Todd Bradley (current GM of PSG). Between them, these two groups represent approximately 50% of HP's revenues. Is this a first step in some greater strategic initiative being implemented by the new executive administration of Meg Whitman or something less dramatic?

HP announced that it is merging two of its big divisions: the Personal Systems Group (PSG) and the Imaging and Printing Group (IPG), with the resulting group lead by Todd Bradley (current GM of PSG). Between them, these two groups represent approximately 50% of HP's revenues. Is this some greater strategic initiative lead by the new executive administration of Meg Whitman or something less dramatic? Both groups have been relatively under performing when it comes to profits, given that the PC hardware business has notoriously low margins, and even the printing business, which in the past generated stellar profits from its extremely high margin consumables business (i.e., ink, toner) has been having some difficulties lately as lower cost competition has made an impact on profits. Further both have exhibited a downward revenue trend over the past several quarters reflecting market realities, which will not likely have any dramatic upticks in the short term, especially given HP's failure to effectively cash in on the big trends in mobility (e.g., its major failure with the Palm acquisition and subsequent write-offs).

So, by combining these two businesses which are heavily weighted towards the consumer market, is HP drawing a line in the sand between its future and its past? Is it positioning the business for a sell off (unlikely as it's probably too big for anyone to acquire profitably) or a spin out (the more likely scenario)? Is HP about to pull a Motorola, who last year split in two along similar primarily consumer (mobile devices) and business (primarily infrastructure) product lines? As of HP's Q1 2012 report, the Services group was approximately the same size as PSG but had nearly twice the profitability and the Enterprise Servers Storage and Networking Group together with the Software Group was approximately the same size as IPG with nearly equal profitability. And both are doing relatively well in light of a recovering business spending environment and need for infrastructure improvements in emerging markets.

I would argue that if HP is moving down this path, it is the right move for them to make (and if they're not they should be). The real growth opportunity for HP and its shareholders is in services, software, and higher margin hardware (e.g., servers, cloud-based systems, networking, storage). This is where increasingly the market is shifting its spending. Further, by segregating PSG and

IPG, HP can more clearly focus its R&D and marketing on its longer term strategic competition such as IBM, Oracle and SAP. SAP currently is not in the hardware business and is unlikely to be, but Oracle's acquisition of Sun has not been terribly profitable, and longer term I predict it will likely undertake a similar hardware divestment. And of course IBM does make hardware but years ago got out of the low margin end of the business by selling it to Lenovo (who has done well with it, by the way).

If my speculation above is truly the motivation behind this move (and not just executive shifting and the retirement of IPG's Mr. Joshi), then I applaud the move. A divided HP could actually increase its focus and improve overall performance for both entities after a split. It would let HP Enterprise focus on its expanding (and profitable) services and software business and face their strategic threats head on. And it would let the HP Consumer group (PSG/IPG) focus exclusively on competing with the likes of Lenovo, Samsung, and other rising emerging market stars (including Apple) that clearly are becoming existential threats to HP's long term profitability. HP has done this before, when it split off its test equipment and medical equipment groups to form Agilent in 1999 so it could concentrate on the emerging market for PCs and servers. So making this move now would not be unprecedented. Of course, only time will tell if the split actually takes place, but don't be shocked to wake up one day in the not to distant future to see HP split itself in two.

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