

MWS Tracker Spotlight:

Hewlett-Packard Company (NYSE:HPQ) to Spin off its PC Business

August 18, 2011

Overview:

Hewlett-Packard (HPQ) is expected to announce as early as today its plans to spin off its PC business as it pursues its new strategy focusing on technology services and software. (Source: *The Wall Street Journal*)

MWS Highlights:

- As a major player in the space, HPQ is the leader in PC market share in the US, controlling over 25% of the market as of Q2 2011. In addition, its annualized PC sales of roughly \$38B represent approximately 1/3 of HPQ's \$127B total revenue. HPQ's decision to spin off its PC business is a significant event that marks a strategic corporate strategy shift away from its traditional business model.
- The low-margin, low-growth PC business generates a 5.7% operating margin, and is the lowest operating margin business segment at the company. In addition, it has seen its PC sales decline by 5% in Q2 2011.
- As a stand-alone entity, the PC business will no longer benefit from the synergies and financial resources of being a part of a large IT conglomerate. Its future success will depend in large part on how well it is able to develop efficiencies within its supply chain as well as execute "friction free" channel partnerships among its distributors and resellers.
- With the spin off, hardware resellers will have less leverage with vendor partners because they will no longer be able to resell bundled software, service, and wide-ranging product offerings. Furthermore, the impact will go beyond hardware resellers as key software vendors such as Microsoft will be impacted by this move.
- HPQ is also discontinuing its TouchPad tablet computer and related smartphones following poor sales. The Company will also stop production of smartphones based on the webOS operating system that it received from the \$1.2B purchase of Palm, Inc last year.
- HPQ's pursuit of cloud offerings will be enhanced by its strong service offering and balance sheet without leveraging PC relationships.
- This will be one of the most significant moves of the year, such as when IBM spun off its PC business to Lenovo in 2005. As HPQ's strategy focuses on cloud offerings (with its acquisitions of EDS, 3PAR, and 3COM), this shift will be beneficial to some channel partners, but not the majority.
- HPQ shares fell \$1.88, or 5.99 percent, to \$29.51 on the New York Stock Exchange when they resumed trading after being halted for the company's statement. Year-to-date the shares have declined 25 percent in 2011.

Press Release:

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