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hp reports second quarter results

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PALO ALTO, Calif., May 16, 2001 -- Hewlett-Packard Company (NYSE: HWP) today reported financial results for its second fiscal quarter ended April 30, 2001.

The company reported second quarter revenue of \$11.6 billion, compared to \$12.0 billion in last year's second quarter, a decrease of 4% as reported (flat before the effects of foreign currency) and a decline of 3% sequentially.

Pro forma earnings per share (EPS) on a diluted basis was 18 cents, compared to pro forma EPS from continuing operations of 43 cents in the prior-year period. Pro forma earnings this quarter included \$155 million in extraordinary inventory and capacity write-downs in the consumer business. Without these write-downs, pro forma EPS would have been 6 cents higher.

Actual EPS on a diluted basis before a 1 cent extraordinary gain on extinguished debt was 15 cents per share on approximately 2 billion shares of common stock and equivalents outstanding. Diluted EPS from continuing operations for the same period last year was 39 cents.

"Our results continue to be impacted by significant macro-economic challenges and particular weakness in consumer and capital spending in the US and Europe," said Carly Fiorina, chairman, president and chief executive officer. "But we can't pin all of our issues on the economy. We've previously acknowledged the work we're doing in our enterprise business to reinvigorate channel and go-to-market programs. The systemic, structural changes we are making in these areas are not quick fixes, but we're making steady improvement day by day."

"This was clearly a tough quarter, but there are also signs of real progress. In our consumer business, revenues declined 8%, but we maintained or gained share in every category in which we compete and remain profitable. Revenues in our enterprise business declined 1% year over year, but were up 2% sequentially.

"As we move through this economic trough, we will continue to stay focused on the elements of our performance that we can control - world-class engineering, improved sales execution, and disciplined expense and asset management. We will stay the course on our strategy and reinvention.

"Looking forward to the third quarter, we believe current consensus EPS estimates are reasonable. However, given continuing deterioration in key economic indicators and increasing global uncertainty, we think broadening the revenue range slightly from flat to flat to down 5% is prudent."

Business Segment Results

Imaging and Printing Systems

The imaging and printing systems segment includes laser and inkjet printers, imaging devices and associated supplies. Revenues overall for the segment declined 3% (flat in local currency).

Inkjet and LaserJet hardware revenues declined in the quarter, impacted by weak PC demand. The supplies business achieved customarily strong revenue growth rates in every region except Europe. In Europe, multiple pricing moves influenced by currency volatility caused channels to adjust inventories and held our worldwide revenue growth in supplies to 10%.

"Our IPS franchise continues to lead the industry on every front. We successfully executed the largest product rollover in the history of the LaserJet business, introducing six new Web-based

printers and associated services offerings. We're rapidly gaining momentum in the low-end Inkjet market, increasing our unit share in the sub-\$100 segment in U.S. retail from 16% a year ago to 40% today," said Fiorina.

Operating margin was 8.2% or 10.9% when adjusted for the inventory and capacity write-downs, compared to 13.5% for the same period last year and 12.8% for last quarter.

Computing Systems

The computing systems segment includes a broad range of Internet infrastructure systems and solutions for businesses and professionals, including workstations, desktops, notebooks, UNIX[®] and PC servers, storage and software solutions. Overall revenues for the segment declined 7% year over year (declined 2% in local currency), down 5% sequentially.

UNIX server revenues declined 13% year over year and 1% sequentially. HP's high-end UNIX business was up 3% year over year, 67% sequentially. Volume shipments of Superdome are ramping, and orders are strong with a growing sales funnel. HP's leading-edge XP storage business posted 60% revenue growth. Overall storage revenues grew a modest 4% due largely to slow growth in HP's mature tape business. HP's OpenView services management software, up 24%, continued to drive software revenues, which increased 9%.

PC server revenues were down 4%. Commercial clients declined 4% year-over-year, and increased 3% sequentially. Home PC revenues declined 15% due primarily to weak demand and associated pricing pressures in North America. HP retained its No. 1 position in consumer PCs in U.S. retail. Additionally, notebooks experienced revenue growth of 18% and achieved meaningful market share gains worldwide.

Operating margin in this business was a negative 2.8%, compared to a positive 3.7% for the same period last year and negative 0.4% for the last quarter.

"Despite the disappointing financial results in this business, we've done heavy lifting over the last 20 months. We're investing in the right areas and making the tough decisions. And as a result of these efforts, we have a very powerful value proposition for customers and we're intent on demonstrating it in our results," said Fiorina.

IT Services

The IT services segment includes consulting, outsourcing, support and customer financing services. Revenues overall for the segment grew 9% (16% in local currency) with improving profitability. HP's consulting business achieved 33% revenue growth, driven by increased size and scope of engagements. Outsourcing revenues were up 23% worldwide, while support services grew at 7%.

"Our IT services business turned in a solid quarter. Our increased focus is resulting in good successes and we believe this business is a significant growth engine for us," said Fiorina.

Operating margin was 6.0%, compared to 6.6% for the same period last year and 5.3% for the last quarter.

Costs and Expenses

Cost of goods sold this quarter was 74.7% of net revenue, up from 71.2% on a pro forma basis in the year-ago period. Operating expenses grew 5% on a pro forma basis, and were 22.1% of net revenue. This compares to 20.3% on a pro forma basis for the same period last year.

Asset Management

Return on assets for the quarter was 8.9% on a pro forma basis, compared to 10.7% for the same period last year. This decline was due primarily to lower earnings this quarter. Inventory was 11.7% of revenue, down from 12.7% last quarter, while trade receivables were 11.7% of revenue compared to 12.2% last quarter. Net property, plant and equipment was 9.4% of revenue, essentially flat compared to last quarter but still at near-record lows. The steady decline in this ratio reflects the company's ongoing efforts to reduce infrastructure and streamline operations.

"We achieved solid asset management this quarter with accounts receivable down \$300 million and inventory down \$400 million," said Robert Wayman, chief financial officer. "This contributed to strong operating cash generation of \$1.1 billion -- an excellent outcome in this economic environment."

About HP

Hewlett-Packard Company -- a leading global provider of computing and imaging solutions and services -- is focused on making technology and its benefits accessible to individuals and businesses through simple appliances, useful e-services and solutions for an Internet infrastructure that's always on.

[HP had total revenue from continuing operations of \\$48.8 billion in its 2000 fiscal year. Information about HP and its products can be found on the World Wide Web at http://www.hp.com.](http://www.hp.com)

UNIX is a registered trademark of the Open Group.

This news release contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of HP and its consolidated subsidiaries to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of earnings, revenues, or other financial items; any statements of the plans, strategies, and objectives of management for future operations; any statements concerning proposed new products, services, or developments; any statements regarding future economic conditions or performance; statements of belief and any statement of assumptions underlying any of the foregoing. The risks, uncertainties and assumptions referred to above include the ability of HP to retain and motivate key employees; the timely development, production and acceptance of products and services and their feature sets; the challenge of managing asset levels, including inventory; the flow of products into third-party distribution channels; the difficulty of keeping expense growth at modest levels while increasing revenues; and other risks that are described from time to time in HP's Securities and Exchange Commission reports, including but not limited to the annual report on Form 10-K for the year ended Oct. 31, 2000, and subsequently filed reports. HP assumes no obligation to update these forward-looking statements.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF EARNINGS
(Unaudited)
(In millions except per share amounts)

	Three months ended April 30,		Percent increase/ (decrease)
	2001	2000	
Net revenue	\$ 11,607	\$ 12,028	(4)
Costs and expenses:			
Cost of products sold and services	8,667	8,595	
Research and development	685	671	
Selling, general and administrative	1,931	1,872	
Total costs and expenses	<u>11,283</u>	<u>11,138</u>	1
Earnings from operations	324	890	(64)
Interest income and other, net	154	210	
Interest expense	<u>71</u>	<u>40</u>	
Earnings from continuing operations before extraordinary item and taxes	407	1,060	(62)
Provision for taxes	<u>100</u>	<u>244</u>	
Net earnings from continuing operations before extraordinary item	307	816	(62)
Net earnings from discontinued operations	<u>-</u>	<u>119</u>	
Net earnings before extraordinary item	307	935	(67)
Extraordinary item - gain on early extinguishment of debt, net of taxes	<u>12</u>	<u>-</u>	
Net earnings	<u>\$ 319</u>	<u>\$ 935</u>	(66)

Basic net earnings per share: ^(A)		
Net earnings from continuing operations before extraordinary item	\$ 0.16	\$ 0.41
Net earnings from discontinued operations	-	0.06
Extraordinary item - gain on early extinguishment of debt, net of taxes	0.01	-
Net earnings	<u>\$ 0.17</u>	<u>\$ 0.47</u>
Diluted net earnings per share: ^(A)		
Net earnings from continuing operations before extraordinary item	\$ 0.15	\$ 0.39
Net earnings from discontinued operations	-	0.06
Extraordinary item - gain on early extinguishment of debt, net of taxes	0.01	-
Net earnings	<u>\$ 0.16</u>	<u>\$ 0.45</u>
Cash dividends declared per share ^(A)	\$ -	\$ -
Average number of shares and share equivalents: ^(A)		
Basic	1,935	1,988
Diluted	1,987	2,084

(A) The calculation of diluted earnings per share includes the effect of common-stock equivalents, such as stock options, while the calculation of basic earnings per share does not. All share and per-share amounts reflect the two-for-one stock split effective October 27, 2000.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF EARNINGS
(Unaudited)
(In millions except per share amounts)

	Six months ended April 30,		Percent increase (decrease)
	2001	2000	
Net revenue	\$ 23,555	\$ 23,701	(1)
Costs and expenses:			
Cost of products sold and services	17,370	16,944	
Research and development	1,358	1,278	
Selling, general and administrative	3,866	3,637	
Total costs and expenses	<u>22,594</u>	<u>21,859</u>	3
Earnings from operations	961	1,842	(48)
Interest income and other, net	366	373	
Interest expense	160	96	
Impairment losses on investments	<u>365</u>	<u>-</u>	
Earnings from continuing operations before extraordinary item and taxes	802	2,119	(62)
Provision for taxes	<u>190</u>	<u>509</u>	
Net earnings from continuing operations before extraordinary item	612	1,610	(62)
Net earnings from discontinued operations	<u>-</u>	<u>119</u>	
Net earnings before extraordinary item	612	1,729	(65)
Extraordinary item - gain on early extinguishment of debt, net of taxes	<u>35</u>	<u>-</u>	
Net earnings	<u>\$ 647</u>	<u>\$ 1,729</u>	(63)
Basic net earnings per share: ^(A)			
Net earnings from continuing operations before extraordinary item	\$ 0.32	\$ 0.81	
Net earnings from discontinued operations	-	0.06	
Extraordinary item - gain on early extinguishment of debt, net of taxes	0.02	-	
Net earnings	<u>\$ 0.34</u>	<u>\$ 0.87</u>	
Diluted net earnings per share: ^(A)			
Net earnings from continuing operations before extraordinary item	\$ 0.31	\$ 0.78	
Net earnings from discontinued operations	-	0.06	
Extraordinary item - gain on early			

extinguishment of debt, net of taxes	0.02	-
Net earnings	<u>\$ 0.33</u>	<u>\$ 0.84</u>
Cash dividends declared per share ^(A)	\$ 0.16	\$ 0.16
Average number of shares and share equivalents: ^(A)		
Basic	1,934	1,992
Diluted	1,996	2,085

(A) The calculation of diluted earnings per share includes the effect of common-stock equivalents, such as stock options, while the calculation of basic earnings per share does not. All share and per-share amounts reflect the two-for-one stock split effective October 27, 2000.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF EARNINGS
Excluding adjustments itemized below
(Unaudited)
(In millions except per share amounts)

	Three months ended	
	April 30,	
	2001	2000
Net revenue	\$ 11,607	\$ 12,028
Costs and expenses:		
Cost of products sold and services	8,667	8,558
Research and development	683	654
Selling, general and administrative	<u>1,884</u>	<u>1,788</u>
Total costs and expenses	<u>11,234</u>	<u>11,000</u>
Earnings from operations	373	1,028
Interest income and other, net	154	172
Interest expense	<u>71</u>	<u>40</u>
Earnings from continuing operations before extraordinary item and taxes	456	1,160
Provision for taxes	<u>100</u>	<u>273</u>
Net earnings from continuing operations before extraordinary item	<u>\$ 356</u>	<u>\$ 887</u>
Net earnings per share from continuing operations before extraordinary item:		
Basic	\$ 0.19	\$ 0.45
Diluted	\$ 0.18	\$ 0.43
Average number of shares and share equivalents:		
Basic	1,935	1,988
Diluted	1,987	2,084

The pro forma amounts above have been adjusted to exclude the following items:

Costs of products sold and services:		
Enhanced Early Retirement Program	\$ -	\$ 37
Operating expenses:		
Goodwill amortization	49	21
Enhanced Early Retirement Program	-	63
Costs related to Agilent spin-off	-	17
Total adjustments to operating expenses	<u>49</u>	<u>101</u>
Interest income and other, net:		
Net investment (gains)/losses	-	(30)
Gains on divestitures	-	(8)
Total adjustments to interest income and other, net	-	(38)
Income tax effect	-	(29)

Total pro forma adjustments \$ 49 \$ 71

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF EARNINGS
Excluding adjustments itemized below
(Unaudited)
(In millions except per share amounts)

	Six months ended April 30,		Percent increase (decrease)
	<u>2001</u>	<u>2000</u>	
Net revenue	\$ 23,555	\$ 23,701	(1)
Costs and expenses:			
Cost of products sold and services	17,370	16,907	
Research and development	1,337	1,261	
Selling, general and administrative	3,666	3,514	
Total costs and expenses	<u>22,373</u>	<u>21,682</u>	3
Earnings from operations	1,182	2,019	(41)
Interest income and other, net	366	335	
Interest expense	<u>160</u>	<u>96</u>	
Earnings from continuing operations before extraordinary item and taxes	1,388	2,258	(39)
Provision for taxes	<u>305</u>	<u>546</u>	
Net earnings from continuing operations before extraordinary item	<u>\$ 1,083</u>	<u>\$ 1,712</u>	(37)
Net earnings per share from continuing operations before extraordinary item:			
Basic	\$ 0.56	\$ 0.86	
Diluted	\$ 0.55	\$ 0.83	
Average number of shares and share equivalents:			
Basic	1,934	1,992	
Diluted	1,996	2,085	

The pro forma amounts above have been adjusted to exclude the following items:

Costs of products sold and services:			
Enhanced Early Retirement Program	\$ -	\$ 37	
Operating expenses:			
Goodwill amortization	75	39	
Acquisition-related charges	44	-	
Marketing realignment	102	-	
Enhanced Early Retirement Program	-	63	
Costs related to Agilent spin-off	-	38	
Total adjustments to operating expenses	<u>221</u>	<u>140</u>	
Interest income and other, net:			
Net investment (gains)/losses	365	(30)	
Gains on divestitures	-	(8)	
Total adjustments to interest income and other, net	<u>365</u>	<u>(38)</u>	
Income tax effect	<u>(115)</u>	<u>(37)</u>	
Total pro forma adjustments	<u>\$ 471</u>	<u>\$ 102</u>	

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET
(In millions)

	April 30, 2001	October 31, 2000
	<u>(unaudited)</u>	<u></u>

ASSETS

Current assets:

Cash and cash equivalents	\$ 3,606	\$ 3,415
Short-term investments	563	592
Accounts receivable, net	5,686	6,394
Financing receivables, net	2,196	2,174
Inventory	5,704	5,699
Other current assets	<u>4,989</u>	<u>4,970</u>
Total current assets	<u>22,744</u>	<u>23,244</u>
Property, plant and equipment, net	4,572	4,500
Long-term investments and other assets	<u>6,121</u>	<u>6,265</u>
Total assets	<u>\$ 33,437</u>	<u>\$ 34,009</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Notes payable and short-term borrowings	\$ 3,221	\$ 1,555
Accounts payable	3,888	5,049
Employee compensation and benefits	1,574	1,584
Taxes on earnings	1,365	2,046
Deferred revenues	1,988	1,759
Other accrued liabilities	<u>3,230</u>	<u>3,204</u>
Total current liabilities	<u>15,266</u>	<u>15,197</u>
Long-term debt	2,843	3,402
Other liabilities	979	1,201
Stockholders' equity	<u>14,349</u>	<u>14,209</u>
Total liabilities and stockholders' equity	<u>\$ 33,437</u>	<u>\$ 34,009</u>

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)
(In millions)

Net revenue (which includes intersegment revenue) and earnings from operation each segment are provided in the tables below:

	Three months ended April 30,	
	<u>2001</u>	<u>2000</u>
Net revenue:		
Imaging and Printing Systems	\$ 4,978	\$ 5,145
Computing Systems	4,662	5,003
IT Services	1,913	1,758
Other	<u>312</u>	<u>403</u>
Total Segments	<u>11,865</u>	<u>12,309</u>
Eliminations / Other	(258)	(281)
Total HP Consolidated	<u>\$ 11,607</u>	<u>\$ 12,028</u>
Earnings from operations:		
Imaging and Printing Systems	\$ 410	\$ 697
Computing Systems	(130)	183
IT Services	115	116
Other	<u>(86)</u>	<u>(20)</u>
Total Segments	<u>309</u>	<u>976</u>

<u>Eliminations / Other</u>	15	(86)
Total HP Consolidated	<u>\$ 324</u>	<u>\$ 890</u>

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)
(In millions)

Net revenue (which includes intersegment revenue) and earnings from operations each segment are provided in the tables below:

	Six months ended		P
	April 30,		i
	<u>2001</u>	<u>2000</u>	(c)
Net revenue:			
Imaging and Printing Systems	\$ 10,020	\$ 10,179	
Computing Systems	9,583	9,840	
IT Services	3,804	3,434	
Other	<u>643</u>	<u>721</u>	
Total Segments	<u>24,050</u>	<u>24,174</u>	
<u>Eliminations / Other</u>	(495)	(473)	
Total HP Consolidated	<u>\$ 23,555</u>	<u>\$ 23,701</u>	
Earnings from operations:			
Imaging and Printing Systems	\$ 1,054	\$ 1,380	
Computing Systems	(149)	373	
IT Services	216	241	
Other	<u>(146)</u>	<u>(48)</u>	
Total Segments	<u>975</u>	<u>1,946</u>	
<u>Eliminations / Other</u>	(14)	(104)	
Total HP Consolidated	<u>\$ 961</u>	<u>\$ 1,842</u>	

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