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Hewlett-Packard Split Part of Its Strategy

TECHNOLOGY: Some See San Diego in Position to Benefit

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The proposed split of Hewlett-Packard into two public companies could have a positive effect on its local operations in Rancho Bernardo where it has some 2,000 employees, said local sources.

Last week, Hewlett Packard announced plans to split up its two divisions into separate publicly traded entities. Hewlett-Packard Enterprise will be made up of servers and other networking infrastructure along with software and services. The other company will comprise of personal computers, notebooks, printers and print services will be called HP Inc.

The company said splitting the company is part of a five-year turnaround plan that is in the fourth year. “The decision to separate into two market-leading companies underscores our commitment to the turnaround plan,” said Meg Whitman, chairman, president and CEO of HP.

Kevin Carroll, an executive vice president of Connect, a local nonprofit that helps technology startups, said because the printing and imaging division here was engaged in developing innovative products, HP would likely continue that activity.

“As (HP) focuses more on consumers, I imagine San Diego will only become more important to them,” Carroll said. “This really is an innovation center for them.”

On HP’s announcement it will likely cut about 55,000 jobs (some 36,000 have already left) as a result of the massive overhaul, Carroll said he didn’t think many would come from the local office.

“I’d be surprised if a lot of them came out of the printing division…considering the amount of revenue it has been generating,” he said.

HP reported total revenue for its fiscal third quarter ended July 31 of $27.6 billion, up 1 percent from the like quarter of 2013. For the nine months, total revenue was flat at $83 billion.

In its last annual report, HP said it did $32 billion in revenue in personal computers and systems, and $23.8 billion printing revenue.

Whitman at the Helm

Whitman, who lost a bid to become governor of California in 2010, was hired as HP’s CEO in 2011 and has guided the Palo Alto-based technology giant to righting itself from years of rapid expansions and some dubious acquisitions, notably that of Compaq in 2002.

“That’s what makes her a turnaround expert,” said Bill Gunderson of Gunderson Capital Management, a San Diego investment advisory firm with about $100 million of assets under management. “This was a bloated company and was going nowhere. Something had to be done.”

Bigger Not Always Better

Spinning off smaller and faster growing companies from a parent is often a strategy employed when the parent business wants to realize value from the faster-growth business, said Nikhil Varaiya, finance professor at San Diego State University.

“This could allow each of the companies to realize their own efficiencies without the challenge of being part of a much bigger organization,” Varaiya said. “The question is will those values be bigger than before (the split).”

He cited the recent plan of eBay Inc. spinning off PayPal as an example of this strategy.

Wall Street reacted positively to HP’s news when it was announced Oct. 6, with HP shares, traded on the New York Stock Exchange under HPQ, rising nearly 5 percent. But the stock gave back most of that gain the following day, closing at $32.22, resulting in a market capitalization of nearly $66 billion.

Gunderson said HP was in the process of reinventing itself, and trying to maximize the value of its high growth enterprise business lines, and applauded the move.

“There are a lot of dying businesses that are in very highly competitive industries,” he said. “Look at Eastman Kodak. They were once a member of the Dow (Jones Industrials Index) at one point and now it’s a penny stock because they never reinvented themselves.”