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Topics: Mobile, Content Management

Issues: What are the key trends impacting mobile computing?
How will content management providers compete in a changing environment?

Extreme Makeover: HP Dumps Tablets, buys Software Provider Autonomy

Summary: On the day it announced the US \$10.25 billion acquisition of Autonomy, HP announced it would discontinue its Touchpad tablet business and explore options for its PC Unit.

Event: On August 18th, HP announced a \$10.25 billion cash purchase of Search provider Autonomy. At the same time it announced this purchase, HP also decided to exit the mobile computing hardware business, due to lackluster sales of its Touchpad.

Analysis: In a risky move to expand its presence in enterprise software, HP is using a majority of its US \$12.9 billion cash on hand to buy Autonomy, a provider of Search and Content Management Software for US \$10.25 billion. The Autonomy acquisition builds on organic investments in software that HP has been making in Enterprise Software for the last several years and should position it well in the content management and search markets. However, at an announced purchase price of \$10.25 billion, HP is paying a significant premium for Autonomy, which has revenues of just over \$1 billion. Additionally, HP announced that it is exploring options to exit the PC business in 12-18 months. The sale of that unit would help to provide cash to offset the Autonomy purchase.

End of the Palm Experiment

The HP Touchpad never sold and it was cancelled. HP indicated that the TouchPad was a "bet" HP made that wasn't paying for

itself. HP was facing the prospects of selling PCs with Microsoft Windows and Tablets with WebOS. As the PC era declines and mobile device computing explodes, two separate operating systems don't mix, especially in enterprise accounts. Microsoft needs HP for Windows distribution now more than it ever has, so ending the days of a dual OS strategy is a wise move. Not having a tablet to sell is not. HP indicated that it is exploring options for how best to optimize the value of webOS software going forward.

The end of the PC Unit?

Stunningly, HP is set to exit the PC business as the market leader in the US and worldwide. Although similar to IBM's corporate makeover and exit of the low-margin PC business, this time there is more to the story. The era of PC dominance is over. Tablets, and increasingly powerful smartphones, are defining an era in which personal computing will come in many form factors.

HP envisioned this future, responded with smartphones, a tablet and a mobile OS, but failed to provide a cohesive and meaningful alternative to the dominance of Apple or Android-based systems. Even though HP's PC business has an imposing presence as a separate company, enterprises need to examine long term agreements and develop exit plans if necessary. Having a relationship with alternative PC providers is an important part of any exit strategy.

Shifting to Software

HP's new CEO, Leo Apotheker, is intent on the transformation of HP to focus on software and

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services. Besides Adobe, Autonomy is one of the few large software vendors able to materially add to HP's bottom line. Autonomy is focused on search and content related applications and there is synergy with HP's Services group and with its IPG unit, particularly because of the rapid shift from hardcopy documents to digital content.

HP faces big challenges. First, selling software is different than selling hardware. HP indicated that Autonomy will remain as an independent unit, but unifying sales and marketing messages is essential. Second will be the issue of explaining to major accounts how to contend with the now orphaned PC unit. Enterprises that are users of HP PCs need to evaluate the alternative outcomes for the PC unit and examine their next steps. Customers of Autonomy need to monitor the situation with attention to changes in product roadmaps or notable management changes.