



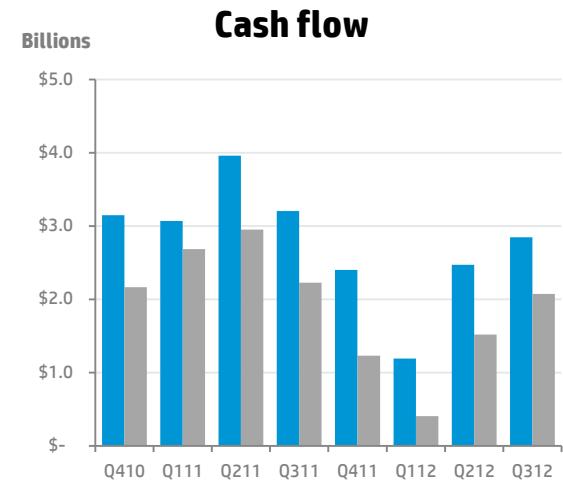
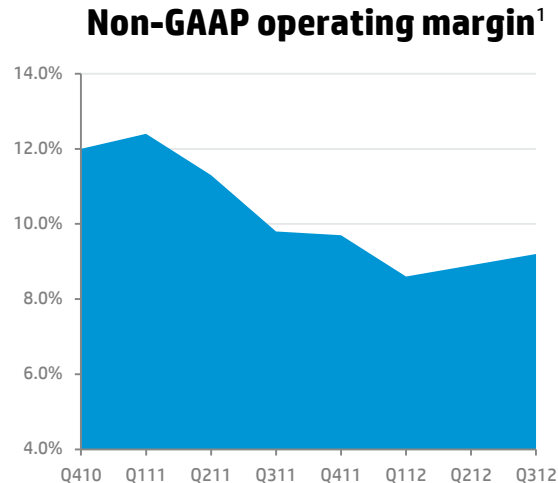
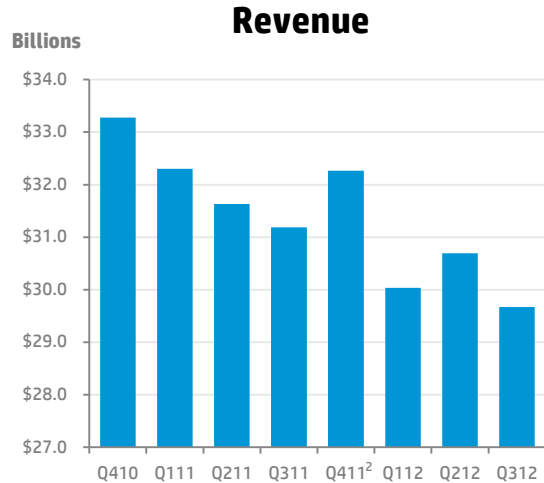
# **HP Securities Analyst Meeting 2012**

**Cathie Lesjak**

Executive Vice President and Chief Financial Officer

# Recent financial performance

Macroeconomic conditions, market dynamics and HP's own execution challenges have put pressure on the FY12 year-to-date performance...



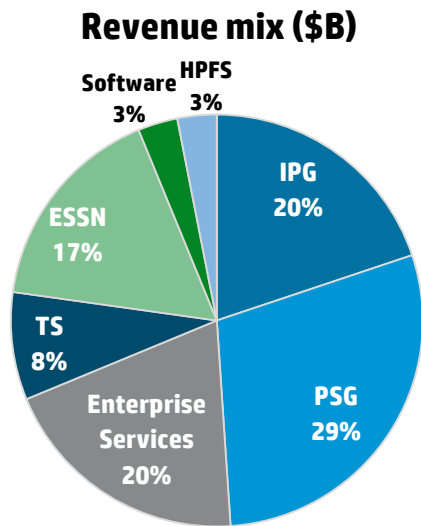
■ Operating cash flow ■ Free cash flow<sup>3</sup>

1. All non-GAAP financial measures have been adjusted to exclude certain items. A reconciliation of these non-GAAP financial measures to the related GAAP financial measures and an explanation of HP's use of non-GAAP financial measures is included in the supplemental slides available at [www.hp.com/investor/SAM2012](http://www.hp.com/investor/SAM2012)
2. Q411 amount shown is non-GAAP revenue; all other amounts are GAAP revenue
3. Free cash flow = operating cash flow - net capital expenditures



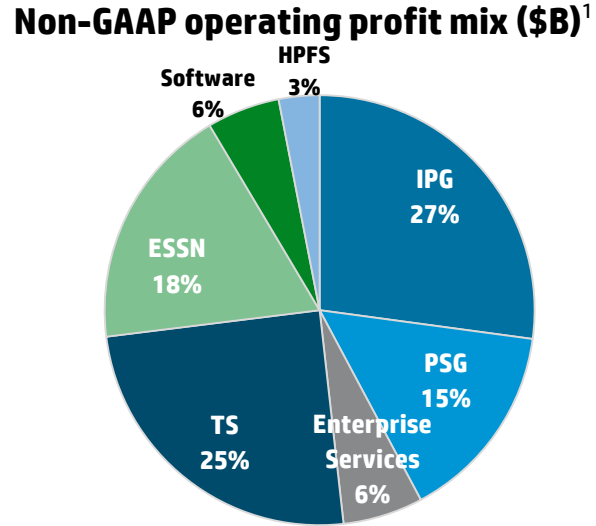
# Recent financial performance

...while HP's balanced portfolio and capital discipline has allowed it to rebuild its balance sheet and return capital to shareholders



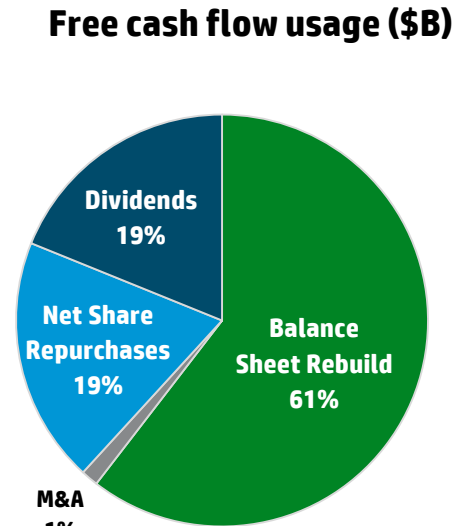
**\$90.4B**

HP YTD revenue<sup>2</sup>



**\$8.0B**

HP YTD operating profit<sup>2</sup>



**\$4.0B**

HP YTD free cash flow<sup>2</sup>

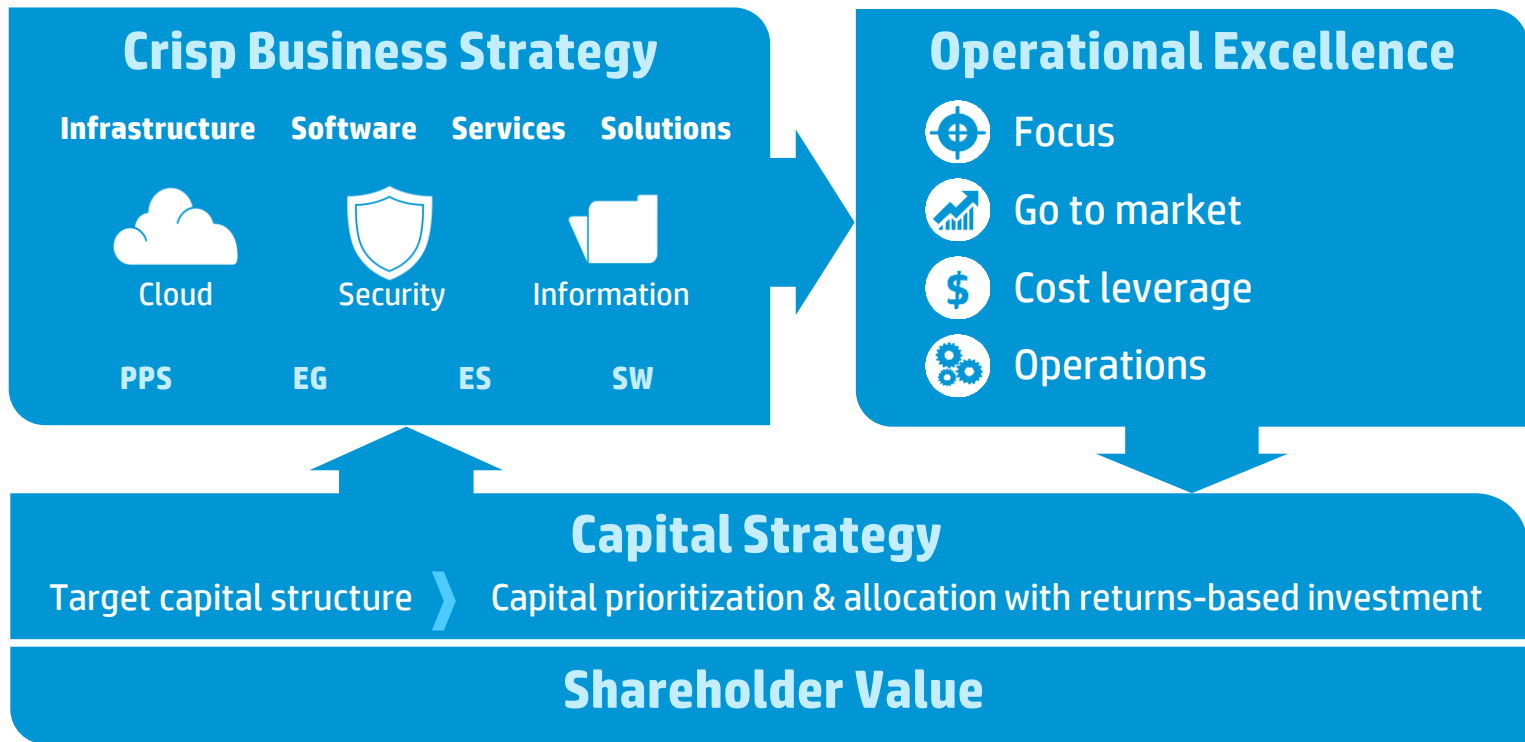
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2. FY12 through Q3. Revenue and operating profit segment percentages exclude the impact of eliminations



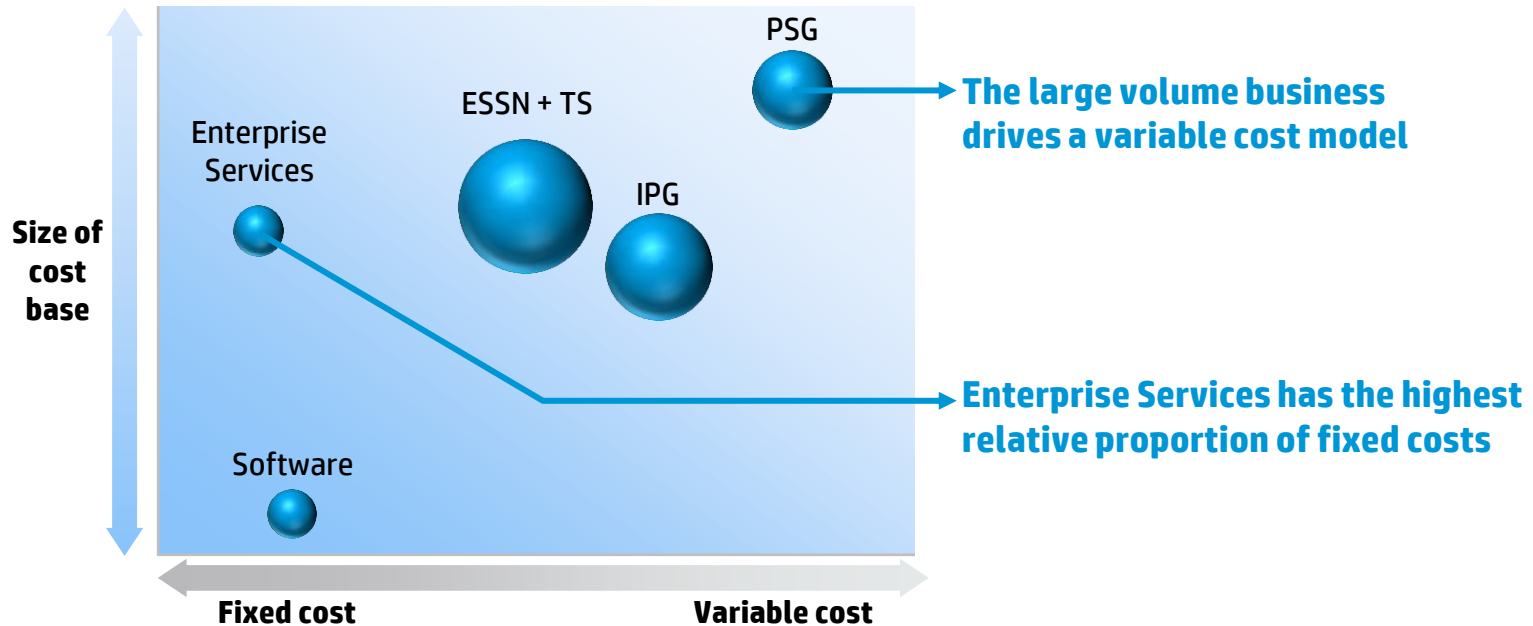
# Our opportunity

## Make it matter.



# Operating leverage

The cost model of PSG allows it to maintain margins despite top line pressure, while the fixed costs of Enterprise Services require structural adjustments when the top line declines



Note: Size of bubble is based on relative operating profit \$ per segment  
Fixed to variable cost axis is not to scale – it is intended only to show the segments' relationships to one another

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# Restructuring update

Progress has been steady and results are within expectations so far



**Total expected charge through FY14 was increased to \$3.7B from \$3.5B**

- As of July 31, 2012, \$1.7B of costs were expensed
- Expected cash impact of approximately \$2.7B through FY14
- FY13 expected expense is \$1.5B



**Total expected employee departures were increased to 29K from 27K**

- As of July 31, 2012, approximately 3.8K employees had left HP
- By the end of FY13, a cumulative 26K employees are expected to leave HP



**Under the current plan, much of the savings initially expected to fund reinvestment opportunities have been and will continue to be used to offset deteriorating outlook**

# Capital strategy

Source and deploy the appropriate mix of capital to the most productive uses

## Determine business plans and return targets

- Develop growth and earnings targets to maximize shareholder value over the long-term
- Establish desired credit rating and liquidity needs to guide the capital structure targets

## Fund capital uses necessary to achieve business objectives

- Maintenance operating expenses and capital expenditures
- Regular dividend
- Required pension funding
- **Balance sheet adjustments to achieve credit rating target**

## Allocate excess cash to highest economic profit opportunities

- Organic growth investments
- Mergers and acquisitions
- **Capital distributions**
  - Share repurchases
  - Dividends
- Incremental pension funding

**Maximize economic return and shareholder value by generating the highest risk-adjusted return on investment**



# Shareholder distribution philosophy

Framework for return of capital to shareholders



## We repurchase stock when:

### Ample funds exist

while building financial strength and investing for the long-term



### HPQ trades at a significant discount

relative to conservatively estimated intrinsic value



### No higher ROI opportunity exists

adjusting for the long-term risk profile of HP



## We pay dividends:

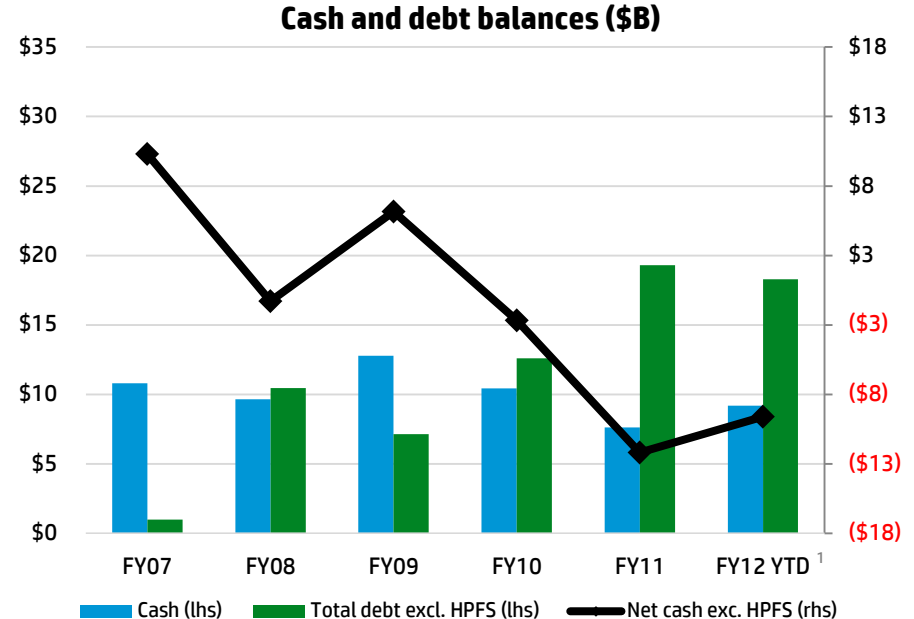
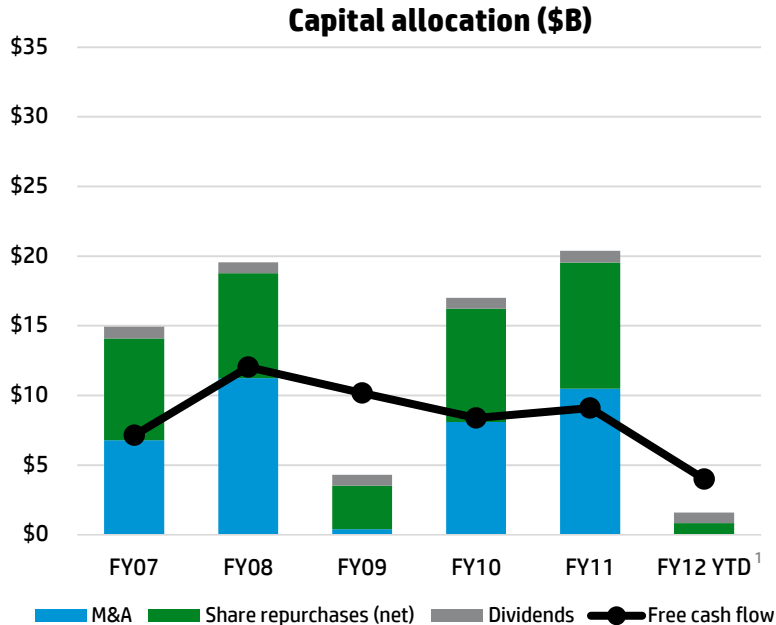
To provide a  
consistent and  
predictable  
income stream

To demonstrate  
a commitment  
to sustained  
return of capital



# Rebuilding the balance sheet

Capital deployment will continue to be moderated in the near term to achieve the target capital structure



1. FY12 though Q3



# FY13 Outlook

## Key assumptions

## FY13

Macroeconomic environment	Continued weakness, especially in EMEA and globally in consumer
Revenue	Year-over-year declines across segments, except for Software
Currency impact	Approx. 2% headwind
Operating margin	Year-over-year decline
Eliminations	Approx. in line with FY12
Restructuring benefit	Approx. \$2.2B

## Outlook

## FY13

Non-GAAP EPS <sup>1</sup>	\$3.40 - \$3.60
GAAP EPS	\$2.10 - \$2.30

## Non-operational assumptions

OI&E	Approx. \$1.0B
Tax rate	Approx. 22%
Share count	Flat vs. Q4 FY12

## Enterprise Services assumptions

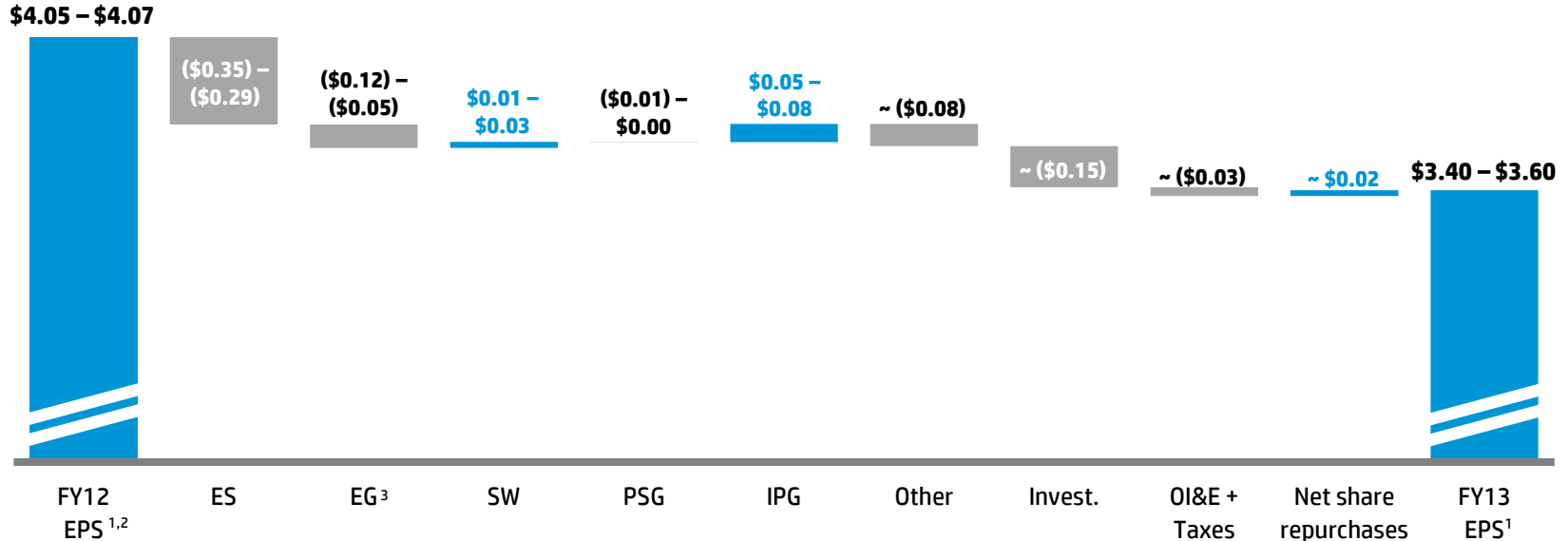
Revenue growth	-11% to -13% Y/Y
Operating margin	0% to 3%

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# FY13 Outlook – EPS bridge

## Non-GAAP earnings per share<sup>1</sup>



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Segment non-GAAP EPS estimates are tax affected

2. Represents non-GAAP EPS outlook provided on August 22, 2012, which has not been updated since that date

3. Technology Services, which was previously reported in our Services segment, will be reported with ESSN as part of the new Enterprise Group segment beginning in FY13



# FY13 cash flow model

## Cash flow

## FY13

Operating cash flow	Approx. \$8.5B
Net capital expenditures	Approx. \$3.5B
Free cash flow	Approx. \$5.0B

## Select operating cash flow details

Cash conversion cycle	Approx. 24-26 days
Restructuring cash impact	Approx. \$1.6B
Potential legal deposit	Approx. \$0.4B



# Looking to the future

## Company characteristics



High-performing technology leader



Steady returns and predictable capital distribution



Return-based investment



Conservative financial discipline



Financial strength a key pillar in supporting the broader business strategy

## Long-term financial model

### Revenue growth

Global GDP-like growth

### Operating margin rate

10% - 11%

### Cash flow

Long-term trajectory tracks earnings

### Capital distribution

**Share repurchases:** Return-based distribution, hurdle rate for other investments

**Dividends:** Distributions to share profits generated with long-term investors



# **HP Securities Analyst Meeting 2012**

