

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **HPQ - Hewlett-Packard Securities Analyst Meeting**

**Event Date/Time: Sep. 24. 2009 / 8:15PM GMT**



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

## CORPORATE PARTICIPANTS

**Jim Burns**

*Hewlett-Packard - VP - IR*

**Mark Hurd**

*Hewlett-Packard - Chairman, CEO, President*

**Cathie Lesjak**

*Hewlett-Packard - EVP, CFO*

**Todd Bradley**

*Hewlett-Packard - EVP - Personal Systems Group*

**Tony Prophet**

*Hewlett-Packard - SVP - Personal Systems Group Supply Chain Operations*

**Ann Livermore**

*Hewlett-Packard - EVP - HP Enterprise Business*

**David Donatelli**

*Hewlett-Packard - EVP - Servers & Networking*

**Tom Hogan**

*Hewlett-Packard - EVP - HP Software & Solutions*

**Vyomesh Joshi**

*Hewlett-Packard - EVP - Imaging & Printing Group*

**Ron Coughlin**

*Hewlett-Packard - SVP - Worldwide Strategy & Marketing*

**Stephen Nigro**

*Hewlett-Packard - SVP - Inkjet & Web Solutions*

**Bruce Dahlgren**

*Hewlett-Packard - SVP - Managed Enterprise Solutions*

## CONFERENCE CALL PARTICIPANTS

**Mark Moskowitz**

*JPMorgan - Analyst*

**Katy Huberty**

*Morgan Stanley - Analyst*

**Toni Sacconaghi**

*Sanford Bernstein - Analyst*

**Scott Craig**

*Banc of America-Merrill Lynch - Analyst*

**Ben Reitzes**

*Barclays Capital - Analyst*

**Keith Bachman**

*BMO Capital Markets - Analyst*

**Bill Shope**

*Credit Suisse - Analyst*

**David Bergman**

*Goldman Sachs - Analyst*



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Rich Gardner**

*Citigroup - Analyst*

**Brian Alexander**

*Raymond James - Analyst*

**Shannon Cross**

*Cross Research - Analyst*

**David Wong**

*Wells Fargo Securities, LLC - Analyst*

**Bill Fearnley**

*FTN Equity Capital - Analyst*

## PRESENTATION

### Unidentified Speaker

Ladies and gentlemen, please welcome Vice President, Investor Relations, Jim Burns.

---

### Jim Burns - Hewlett-Packard - VP - IR

Good afternoon and welcome to HP's Security Analyst Meeting. We're looking forward to sharing with you today our strategy and plans for profitable growth for HP. First, I want to remind everybody that this meeting is being webcast live on HP's investor relations website and a replay will be available for approximately one year.

Today's agenda has been designed to highlight for you the opportunities that we see to grow HP and to expand both our top line and our bottom line. We've done a lot of work to improve our competitive positioning and yet we have more work to do, which is good news.

In a moment, our CEO, Mark Hurd, will share with you why HP is uniquely positioned to compete for an attractive \$1.3 trillion market opportunity. After a financial update by our CFO, Cathie Lesjak, we'll hold a Q&A session with both Mark and Cathie.

Following a brief break, we'll have a number of executives discuss how we intend to leverage the industry's broadest portfolio and the industry's greatest scale to capture the market opportunity.

Todd Bradley, who runs our PC business, will discuss PSG and the advantages that all of HP gets from PSG's size. Tony Prophet, who runs our supply chain will then share the opportunities that we see within the supply chain. Tony will be followed by Ann Livermore, who will tee up the opportunities that we have to draft off of PSG's size and leverage the broad portfolio to win in the enterprise space.

Dave Donatelli, who runs servers and networking for us, will follow Ann to discuss the opportunities that we see in the converged infrastructure space. Tom Hogan, who is our software chief, will address the opportunities to differentiate that infrastructure with HP software. And then Ann will follow Tom to discuss the Enterprise business and the advantages we see from having a scaled Hardware, Software and Services business.

After another brief break, we'll have the IPG team, with VJ, Ron Coughlin, Steven Nigro, and Bruce Dahlgren, who will come up here, to share the opportunities that we see to drive the printing transformation.

So after a brief wrap up by Mark, the webcast will conclude and we'll have a brief management reception out in the area you were before the meeting. So before I turn it over to Mark, I just want a couple of brief disclosures.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

First of all, please be aware that our discussion may include some forward-looking information that involves risks, uncertainties and assumptions, as noted on the slide. And then in addition to earnings, operating margins and similar items at the company level are sometimes expressed on a non-GAAP basis and have been adjusted to exclude certain items, the comparable GAAP information and reconciliation of non-GAAP amounts to GAAP are included in the supplemental slides accompanying, this is riveting to you, Mark, isn't it? The presentations.

So with that, I'll ask Mark now to join me on stage. Thank you.

---

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

Yes. Thanks, Jim. Its good news, you got a hand when you came out. And I can see I've got work to do.

Listen, I'm going to try to open it up by giving you some context for what we're doing and what we're trying to work on. And we feel in the end, we're pretty well positioned to go out in the marketplace and win. And that's going to be the theme of what I talk about.

I said before, I think HPs best days are ahead of it, not behind it. I mean that with all sincerity. We've done a lot of work over the past several years to get ourselves in a position to do it. We're competing in a very large, addressable market. And I'll talk to you a little bit about that. We've spent a lot of time, from an acquisitive perspective, as well as an organic R&D perspective, driving innovation to get the portfolio in the position that it's in today.

And whatever you hear about today, know we think we have the best portfolio of technologies and services in the entire industry. We believe we have scale in the important places that gives us a competitive advantage. We have a cost structure that is, I'll use the words, much improved from where it was several years ago.

The good news is, it's better; the good or bad news, depending on your position, is we've got more work to do to make it yet better. We got into the, I'll use the baseball analogy, fifth, sixth inning of the HP cost structure but when the EDS cost structure came on top of the HP cost structure, it gave us more work yet to do.

We will grow faster than the IT market. So while I know we'll get questions about how fast the market's going to grow, whatever that answer is, that's handed to us in 2010, we will grow faster than that answer. And the company has operating leverage to improve its financial performance.

Now this chart basically tells you what I've already mentioned. The TAM -- you're going to hear this term, TAM. Let me try to make sure you get -- don't get caught up in the Hewlett-Packard acronyms, but you no-doubtedly will, or undoubtedly will. TAM is total available market. Stuff that people are buying inside a fiscal year and that in the industry is roughly \$1.9 trillion and we stick with 2008 numbers because we liked '08 better than '09, mainly because it's finished and we can count it.

We can address \$1.3 trillion of the market. PC market is growing, the big are getting bigger. The market is consolidating, we believe that plays to HPs strength and we plan to take advantage of it. The server market ranges from mainframe just to industry standard servers. We're growing substantively and taking share in the growth part of that segment.

Storage, you're going to hear a lot of things about Tier one, Tier two, Tier-three storage, the iSCSI market. We've made acquisitions like LeftHand, put a lot of energy into growing the Tier three, Tier two and we believe the Tier two market will be serving Tier one, the Tier three market Tier two and we believe customers want change and interruption in the storage market.

The networking market, you're going to hear about it. You can see on this chart here and talk about the margins that are in the industry. The networking market, we've taken a position in. We believe it to be a market that will grow over time.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

And we also believe, as you're going to hear in the rest of the day, that there's a lot of leverage between this PC market, the server market, the storage market and the networking market.

We're going to talk to you about Management Software. We're going to talk to you about Services, services is a very, very strategic business for us that's now scaled and you're going to hear, when Tom Hogan talks, about not just our Software business that we think has material opportunity for us, but the alignment between the Services business and the Software business.

We'll talk about printing. Printing, just to give you an idea, as the world moves to digital, there are 200 billion more digital pages, printed every year. And we have a big strategy to capture many of them. And VJ will talk to you about the investments we've made in printing to get that done.

You're going to see this chart a couple of times today. Think of this being the HP supply chain, which is obviously the largest in the IT industry. And thinking about the leverage we get and the opportunity from our PC business to leverage that scale across our Server business, our Storage business and our Networking business. You've seen the gross margins that exist in the different segments. There's also a difference in the industry standard componentry that exists in every segment. And the job for us is to make everything as standard as we can when it makes sense and to put innovation and differentiation on top of that standardization.

So even in our Server business, you'll see more of our R&D and innovation being things like Virtual Connect, which actually virtualizes the number of ports from a network perspective. That's the kind of R&D we'll do and what we call enterprise servers and networking. And then source, as many of the standard components, out of a leverageable supply chain, driven much of the scale from our PC business.

We've spent the last four to five years then layering on top of that Infrastructure business. Again, we think there's leverage -- I draw this chart up sort of like the PC business, the server market, the storage market and the network market all behave sort of independently. And going forward, they will share opportunities in the market.

Like our Matrix product, which is basically a combination of capabilities, and we will layer software on top of that infrastructure. Server management, storage management, network management, security, data center management, all, if you will, leveraging that infrastructure that we bring to the market. And then it's been very important for us to put services on top of this capability, so that we can then provision that infrastructure capability to the customer any way the customer would like it.

We see tens and tens and tens of customers a week. They all have different needs about how to provision capability. Some want OpEx, some want CapEx, some want to leverage other people's infrastructure, some would like to leverage our scale, in terms of the scale we could bring from the unit cost perspective. Some would like to outsource. Some would like to do it themselves. We bring now a capability to be able to help the customer do it any way that makes sense for the customer. And we couldn't have done that at the scale we can now, several years ago.

Printing, I talked about. You're going to hear some different things that I think you've seen from us before in printing. You're going to hear about investments we've made in retail photo kiosks. You're going to hear about our growth in the graphics market. You're going to hear about something called managed print services. These were all markets with longer streams of revenue than you're used to. VJ, I don't know how long does an inkjet usually stay installed?

---

**Vyomesh Joshi** - Hewlett-Packard - EVP - Imaging & Printing Group

2.5 to 3 years.

---

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

2.5 years. The average managed print services contract, five years. Retail photo kiosks can stay installed eight years, nine years, ten years. And then you go into digital press, nine, 10 years. These are long -- and by the way, the connect rate of supplies is virtually 100%.

You're going to hear about how those growth engines that we've already invested in, taking leadership positions in are now becoming a more material part of our IPG. And you're going to hear about the secular trends to more pages being printed, not less. And that's going for where those pages are printed.

We're also going to give you some tactical updates on sort of what customers are really doing in terms of what they're printing and the convergence of what you've seen is our reported numbers of supplies relative to what really is going on in the market in terms of actual purchases.

We do think about the world through lenses -- four lenses simultaneously. We try to think about the secular trends in the industry; virtualization; digitization; mobility; globality. All those trends, we feel, are playing to our strengths, that create interruption in markets that we believe give us opportunities for interruption. And if you think about markets like the server market when we've been able to introduce the blade, we look for interruption. Interruption drives growth opportunities for us.

Secondly, we try to keep an eye on competition. Thirdly, we try to continue to adjust our portfolio to align to that opportunity. And you're going to hear us talk a lot today about now the competitiveness of our portfolio, the level that we haven't had it before. And then good news or bad news, again, depending on what seat you're on or in, we don't quite have HP operating as effectively as we can. And that is still material opportunity for us.

Okay. Key messages before I have Cathie come in and tell you a little about the numbers. Large addressable market, we expect to gain share. We're going to leverage our portfolio and our scale. The EDS integration has gone extremely well for us.

We're going to talk to you about that a bit today and tell you how we are now past the point really of worrying about integrating this process or that process and focused on growth. And growing our Services business and the impact that can have, not only in our Services business, but also across the entire portfolio of HP.

This digital print transformation is a big deal. And it is not just the digital growth that we find important, but these new adjacencies that have not only growth, but even if you thought of IPG as a heavy annuity business, think about it even becoming a more attractive annuity business, with the context and the length of the cycles in these adjacencies that we've entered and the supplies connect that occurs between them.

We are investing for growth. I think that I've had the question of, gee, you guys look like you've done a good job with expenses this year, have you been investing while you've done it? Just to give you an example, in the United States, several years ago, we had tens and tens of smaller call centers at HP. Call centers in some cases had 30 people, 40 people, and we had tens -- I think it came out of different business units and different acquisitions.

Just to give you some context of one investment, we have integrated those call centers this year. We put three round-up call centers in New Mexico, Arkansas, Georgia, to integrate those capabilities and go to the best call center infrastructure and capabilities in the world.

And we did that in the context of our 2009 results. Literally, in our IT organization, we've taken -- we have six internal data centers and just to give you an idea, we actually -- we had one of the six was an older data center that had been retrofitted. We did a ground-up net new data center to become our sixth data center, that is now a fully ground-up, next generation data center.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

Our sales headcount is roughly where we started the year. In fact, if you include the integration of EDS, our sales headcount is now up over where we ended last year as a company.

All because we have more market to go serve and I only bring up a couple of examples in the context of we're trying to align our resources and investing in the core things you would want us investing in, creating innovative technology. Creating demand for that technology and those services and being able to have the best service delivery on the planet. And we have inspection around every dollar cost that we zero base up. To make sure we have our portfolio aligned the most effectively.

And last, I think you should expect for us to continue trying to build the business that can deliver solid earnings growth year-over-year, based on, as we planned, make sure you understand, for those that haven't been around, how we plan, we typically plan for modest growth and to drive reasonable returns off that modest growth.

Simultaneously, we plan to be able to fulfill more growth than what's in our plan. And we do that to try to put the right discipline on our cost structure. To force us to look through every dollar and make sure not only are we efficient, that we've got our money in the right place to, again, grow faster than anybody in the market, if in fact that growth presents itself in the market.

So, that's what we're going to try and tell you today. And with that, what I'm going to do is introduce Cathie and she's going to tell you about the numbers and then, to Jim's point, we'll come back and do some Q&A.

---

**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

Thanks, Mark. Good afternoon everyone. I'm very pleased to be here today, especially with such a strong financial story to tell you all. Both about what we've achieved so far, but as importantly, what the opportunities are ahead of us.

First, let me give you a quick recap of our key business drivers and our recent financial performance. Then I'm going to cover our capital strategy, and finally, I think what you're all really here for us our fiscal 2010 operating model.

Moving now to the financial review, as you can see on the chart, we have a well-balanced collection of businesses, balanced across a number of different dimensions, revenues, profits and geographies.

On a year-to-date basis, Services is now our largest segment relative to revenue and profits. Combined with our Printing business, IPG, Software and Financial services, approximately 75% of our profits now come from these very resilient business models. These businesses have provided good stability in tough economic times like these and are helping to drive our cash flows and are enabling us to sustain key strategic investments.

The more transactional business, personal systems group, PCs and ESS, enterprise server and storage, currently make up just over 20% of our profits. And as you will see in a few moments, these businesses have been hit particularly hard by the current economic environment. Conversely, we could see their earnings contribution rebound nicely with improved business volumes.

Finally, our geographic mix highlights our broad exposure to different growth dynamics across the global marketplace. Ongoing investments in sales coverage, manufacturing and service delivery are helping us to extend into attractive emerging markets like China.

Now let's take a closer look at our profit drivers and our operating leverage. Here we have a summary of our revenue and profit performance by segment for the first three quarters of fiscal 2009. In the table at the bottom of the page, I've split out the businesses into those that are more annuity based, like printing and services, and those that are more transactionally based, like ESS and PSG.



Sep. 24, 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

This distinction helps explain some of the year-to-date resiliency in our profits, while also highlighting some areas where we could see nice profit improvements as the market recovers. While total company revenues are down 1% year-on-year, operating profits increased 6%. And this profit increase is not a short-term trend, as Q3 marks the 17th consecutive quarter of year-over-year profit dollar and margin rate expansion for Hewlett-Packard.

There are many factors that drive this performance, including the ongoing efficiency improvement initiatives, the balanced mix of our businesses that I talked about on the previous slide, as well as continuing our investments in product innovation and sustainable portfolio differentiation.

Another important factor is as business demand improves, the existing operating leverage inherent in our more transactional business model of ESS and PSG. For example, if you go back to 2007, and you look at the growth from 2007 to 2008 for ESS, revenue grew 4%. Operating profit grew 20%, that's a lot of leverage.

This year, however, ESS's fortunes definitely turned in the opposite direction. You can see that at the bottom of the slide, that ESS profits are down over \$850 million through Q3 '09, driven by lower volumes on a relatively high fixed cost structure.

And if I extend this point further, PSG, although not as levered as ESS, has also experienced a sharp drop -- a sharp reduction in volumes, which has contributed to its profit decline of over \$550 million this year. So in total, the profits in our most transactional businesses, ESS and PSG, have declined \$1.4 billion in just nine months.

The bad news is that that profit decline translates into over \$0.40 of decreased EPS contribution for our company. The good news is that these businesses have continued to innovate, continued to gain share and are well positioned with the potential for strong profit contribution when market conditions improve.

In summary, this year we have benefited from the strength of our more resilient business models, like IPG and services, and are well positioned in a market recovery to enjoy strong operating leverage in our large, transactional businesses.

Let me now shift gears to talk a little bit about how we're deploying our capital. On this slide, the columns reflect the mix of capital investments, split between mergers and acquisitions, share repurchases, capital expenditures and dividends. The line on the chart represents cash flow from operations. Just to note that the fiscal '09 bar is through Q3 '09 data. So it only represents the first nine months of our fiscal year, while all the other data points represent a full fiscal year.

For comparability purposes, our year-to-date cash flow from operations for fiscal '09 is \$9.9 billion, compared to \$11.3 billion in fiscal 2008 and just \$6 billion in fiscal 2007. Note that on a year-to-date basis 2009, we have already generated more cash flow than a full year's worth of cash flow in fiscal 2007.

You can see that for the current year, our cash outlays are less than our cash flow generated from our operations. You may also recall that at our EDS meeting last September, we stated our intent to pay down some debt and rebuild our investment capacity. We've done that. We've done that while increasing our organic capital investments, maintaining our strategy to repurchase shares to offset dilution and paying our regular dividend.

Going forward, we will use the framework outlined on this slide to drive our investment decisions and increase shareholder value. Our top priority remains investing in the businesses to create sustainable, competitive advantages, followed by share repurchases and dividends.

Now let's take a look -- closer look at one of the ways we've used our capital to improve our competitive position. Here you have a graphical representation of our acquisitions going back to 2001. And building on one of the points Mark made earlier, you can see the strong alignment between our inorganic investments and our company strategy.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

For example, Compaq's enhanced our scale in industry standard hardware. More than two dozen software acquisitions both added unique capabilities to our expanded hardware portfolio that helped differentiate us in the marketplace as well as improved our position in the key IT software management category.

And our services acquisitions, EDS being the most notable, of course, are helping give us a scaled and global services capability that puts us in a terrific position to solve our customers' most pressing IT problems as well as pull through our entire portfolio.

Now, as outlined on the previous slide, we have rigorous processes for determining which acquisitions to make. Just as importantly, we have rigorous processes to help us integrate these companies successfully.

It's a lot of work to do the proper due diligence and capture the benefits of mergers and acquisitions. And as you can see on this slide, it is a multi-year process that is also multi-dimensional, to help to develop scale, differentiation and services capabilities that are required to compete in our markets and deliver for our customers. So while there's more work for us to do and a lot more opportunity ahead, we feel that our portfolio is second to none and we are uniquely poised to be an even greater force in the industry.

Now let's take a look at our cash and debt positions. This chart on the left reflects our cash balances, both gross and net. And just let me remind you that net cash is defined as gross cash, less all of HP company debt.

We also provide another view, one that Mark and I use frequently, which is the green bar and represents what we call our operating company net cash position. That's defined as net cash without any leasing company debt or cash. So like an industrial company metric.

As I mentioned earlier, we have focused this year on paying down some of the debt that we used to acquire EDS and to also strengthen our balance sheet. Year-to-date, we have improved our operating company net cash by \$4.8 billion and increased the mix of our debt towards longer term maturities.

Excluding our leasing business, we are now in a net cash positive position of \$4.3 billion. In terms of tenure, short-term debt now represents just 19% of our total debt outstanding, versus the 57% that we started the fiscal year with. Overall, HP has substantial investment capacity, either from its cash balances or the additional debt capacity.

Now I want to spend just a couple of minutes on two additional trends. This first chart shows our options outstanding and the orange line represents our option overhang, defined as options outstanding divided by weighted average shares outstanding at the end of the period.

With good control on options granted, and a shift in our compensation strategy toward performance-based restricted stock units, the total number of options outstanding and our option overhang have continued to decline. Going forward, we expect our options and associated option overhang to trend down further, as we grant fewer options that are either exercised or will expire next year.

On the right-hand chart, we have shown the projected trend in non-GAAP adjustments for the next five years for all currently disclosed mergers and acquisition transactions and restructuring programs. You can see that the adjustment fall off materially in fiscal 2010 and '11 as purchase intangible amortizations from prior acquisitions, like Compaq and Mercury, wind down significantly and restructuring charges from EDS and other programs decline as well.

All else being equal, and excluding any new deals or restructuring programs, these non-operational expense reductions will provide a nice lift to our GAAP earnings for the next several years.

Now let's look at our fiscal '10 financial outlook. The next few charts are not in your packet, but as I speak, we will be handing them out.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

This table outlines our cash flow and working capital projections for fiscal 2010. For fiscal 2010, we expect cash flow from operations to be approximately \$13 billion. CapEx should increase next year as we expect increased volume in our outsourcing and financing businesses, as well as in our real estate investments that are needed to enable the incremental EDS synergies we announced at the end of Q2 '09. We expect CapEx next year to be approximately \$4 billion. Therefore, we expect free cash flow to be approximately \$9 billion.

Now moving to working capital. In fiscal 2010, we will continue to leverage our strong balance sheet to take advantage of strategic buys, lower logistics costs, cash discounts and optimized terms with our customers. All in all, we are managing our working capital and we are making the appropriate trade-offs between the balance sheet and the income statement to drive shareholder value. With that, we expect the cash conversion cycle to be roughly flat to up a day compared to 2009.

Now let's take a look in a little bit more detail at our FY '10 operating model. We expect fiscal 2010 revenue to be approximately \$117 billion to \$118 billion. This implies FY '10 growth of between 3% and 4%, calculated off the midpoint of the FY '09 outlook we provided on August 18th.

For currency, we are currently modeling about a point favorable versus 2009. If rates stay where they have been in the last few weeks, we could see some upside to the projections that we've provided here. However, partially offsetting that upside would be the impact of our hedging programs, which are designed to provide some predictability to our business results and are more extensive this year than in years past.

Our current view is that the IT market returns to growth in fiscal 2010 and given the strength of our portfolio and ongoing investments in market coverage, we do expect to grow faster than the market. Longer term, we can grow approximately 4% to 6%, in line with or better than our expectations for the long-term market growth.

FY '10 implied operating margin is projected to be 11.4% to 11.6%. OI&E is estimated to be an expense of approximately \$500 million and we do expect our tax rate to go up to 22%. And this is higher than many of you currently have in your FY '10 models.

The tax rate will increase year-over-year, driven by the expected improvement in profitability as well as the weighting of our profits by business and by geography. We expect our non-GAAP EPS to be between \$4.20 and \$4.30, growing approximately 10% to 13% when compared to 2009. And we expect our GAAP EPS to be between \$3.60 and \$3.70, growing 17% to 20%.

GAAP EPS is growing faster than non-GAAP EPS because of lower expenses related to the amortization of purchased intangibles and lower restructuring charges, as I mentioned earlier. The earnings growth rates showing here are calculated off the fiscal 2009 outlook that we provided in August 18th.

Now let's take a look at our segment models for 2010. On this slide, you can see the ranges for the segments for revenue growth and operating profit in fiscal 2010. These are full year expectations and you may see different numbers quarter-to-quarter, outside of these ranges but these ranges are the appropriate ones to use when you're modeling the full year.

On a consolidated company revenue and profit outlook, it -- our consolidated company revenue and profit outlook, includes approximately \$800 million to \$1.3 billion of net revenue reduction from a combination of corporate investment segment and elimination from intracompany transactions, and \$800 million to \$1 billion profit reduction from our corporate investment segment, eliminations from our intracompany transactions and other costs that we don't allocate to the segments. These eliminations are expected to be higher than in previous years due to increased volumes in our outsourcing and financing businesses.

Next, let me give you an update on where we are on the EDS cost savings. This is a pretty straightforward table with a lot of good information. You can see that we have made good progress toward our end-state goals, but have plenty of work and opportunities ahead of us.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

Through the end of Q3 '09, we have saved about \$900 million through our integration efforts. Looking forward, from the end of Q3 '09 through the end of fiscal 2010, we expect to save an additional \$1.2 billion. A portion of these savings will be reinvested to grow the business, while a portion will fall to the bottom line and help expand our services margins.

In addition, we expect we will save an additional \$900 million between the end of fiscal 2010 and the time when the integration is complete. In summary, we still have tremendous cost savings opportunities from the EDS integration that we will realize over the next few years.

Now let me take you to a fiscal '10 bridge. Here is the EPS bridge, starting from fiscal '09 outlook that we gave you on August 18th and ending with our fiscal 2010 EPS outlook. We expect EPS to improve from first revenue growth, then margin expansion driven by significant cost savings and existing operating leverage. Our efficiency improvements not only expand our margins as shown here, but provide the platform from which we can invest and innovate for market success.

And in addition, we'll get EPS expansion from lower shares and lower OI&E expense. Partially offsetting these benefits will be the unfavorable impact from a higher tax rate, which I've already discussed.

In summary, we expect to drive EPS growth in fiscal 2010 on relatively modest revenue growth. This outlook highlights the leverage in our operating model and the cost improvements we continue to drive across the company.

Let me conclude with the following thoughts. We expect to deliver solid EPS growth, driven by our balanced mix of recurring and transactional businesses. We expect to deliver strong cash flow and prudent capital allocations. And finally, we expect to execute on our cost initiatives and invest in attractive growth opportunities. We are focused on creating shareholder value.

So with that, I will ask Mark to join me on stage as I conclude my remarks. Thank you.

---

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

Okay. Any questions? Why don't we get started? Please. They've got to get you a microphone, I think. Any questions that require yes, no are always great.

---

## QUESTIONS AND ANSWERS

**Mark Moskowitz** - JPMorgan - Analyst

No, sir.

---

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

Thank you.

---

**Mark Moskowitz** - JPMorgan - Analyst

Hi, Mark. It's Mark Moskowitz, JPMorgan. Hello, Cathie, as well.

---

**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

Thank you.

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Mark Moskowitz** - JPMorgan - Analyst

I'm trying to get a sense here. Investors are clearly expecting for the golden age of growth revival and beyond. I think easy comparison to make for 2010. But just trying to get a little better understanding of your 2012 trajectory, in particular on the PC and server side --

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

Make sure I'm clear, Mark, 2012?

**Mark Moskowitz** - JPMorgan - Analyst

2012, yes.

The PC market clearly will see a mix pressure, the ASP pressures. At this point, if we restore normal seasonality in the next few years, maybe we'll get to that 2007 levels, around 250 billion in revenues, whereas you're talking about 290 for 2012. And then also for servers, it seemed that there was a secular decline there. Clearly, it's not all about the HP business, but I'm just trying to get a sense in terms of what are some of your metrics employed there in terms of the PC market to restore that revenue profile?

And then also if we could get more understanding around your assumptions on the market share dynamics. Because it seems like just about a month and a half ago, HP was kind of downplaying your ability to sustain incremental market share gains. And now you're saying that you're going to outgrow the market again.

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

Yes, listen, I think, again, let me say it one more time. We'll do better than the market. And I certainly wouldn't say that we were trying to downplay market share gains. But in some markets, we've gained a lot of share. And my only point was, modeling out four-point share gains and those types of things on a sustainable basis probably isn't the wisest thing for us to do. So -- but again, I would differentiate that from us, our ability to gain share.

I think you've got a couple of dynamics, particularly in the short term, and I'm still prognosticating Q4 as well as I do 2010, let alone 2012. But I think at the end, you've got an infrastructure that's now aging. And that's true, really, across all of the infrastructure categories. In many cases, you've got customers that have taken a year off for modernization, and that's going to have some impact in 2010, let alone 2012.

Secondly, you've got a data explosion going on, which is roughly doubling every four years. At the same time, you've got a digitization explosion simultaneously. You get about 3% of the world's data digital, which is doubling every 18 months. So there's going to be more data, there's going to be more processing, there's going to be more storage, et cetera, et cetera.

I think the issue's going to be that there is some interest on our part, from interrupting some of the status quos and the norms you think of in our segments, and turning those into opportunities for interruption. And that's goes through our head, as you're going to hear strategically as we go through segment by segment.

So when you look at the server market, there is more processing power out there today. What you are seeing within the server market is some secular shift towards industry standard building blocks as being the foundation by which people do the bulk of their processing. We don't see any slow down in that opportunity.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

So think more, Mark, of what we're saying. And the market's going to grow what it grows. Customers' businesses have other impacts than just what HP does. We feel about as well-positioned as we could feel to grow faster than whatever that market hands us. So I'd like you to think of us less as prognosticating a discreet growth rate for HP, as I would say whatever that is, we're going to do better than that. That's the way I want you to think about it, as opposed to we've done some ultra-scientific algorithm that has got us down to this discreet growth rate and if the market grows faster than that, we can't do it.

It's not what's in our head, Mark. What's in our head is to put ourselves in a position to drive these secular trends, to drive the interruption in these segments and to participate in growing them. And that's what we're going to go do.

Here we go, over here. We'll go all the way on this side over here. Back there. Yes? Sorry, the microphone didn't go to who I pointed to. It's just a technical -- hi, Katie.

---

**Katy Huberty** - Morgan Stanley - Analyst

Hi, Katy Huberty, Morgan Stanley. Mark, you talked about investing for growth. Cathie talked about operating leverage. I'm curious if there are any growth opportunities that are significant enough that would cause you, in the near term, to bring up OpEx faster than revenue?

---

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

Well, I think, Katie, for us really, we like to think we're doing things well here. Covering the market isn't our greatest strength. So when you look from a growth perspective, I told you the good news is it's a \$1.3 trillion market. The bad news, we participate in something a little bit more than 800 billion of it.

So for us, getting quality coverage, and remember for us, that's a mix of channel partners, inside sales reps that are now in our newly created environments that we've built for that capability, in addition to people that carry an HP badge that are actually going to see customers every day.

And we will continue to scale it out. I mean, the company today, we have people that are S-coded, that means sales people, in excess of 24,000. That's up from, frankly, 16,000 and that's just four years ago. So we've been scaling -- in that expense structure that you see is materially more sales resources than we've had before. Some we acquired. Some we've just added organically. But, Katie, we've got more to do to be able to cover that market.

Secondly, I wouldn't actually call this just OpEx. But that you want to grow the services business. We're going to continue to look at deals that make sense, not only from a services growth perspective, Katie, but also make sense for our entire portfolio. And when Cathie shows you that 15% to 17% operating leverage, that has two pieces in it. Technology services, which I think is not the most well understood business by all of our investors, and that's due to us not doing as good a job as we could in describing it.

Secondly, EDS and now our HP Enterprise Services business. And that business has with it a portfolio. When you get new deals, they typically come in at a lower profitability level than a deal at the end of its tenure. And we will gauge that range, when we see strong growth opportunities, we'll invest in those, Katie. So I want you to think of us as I think we've done a lot of work to get the company in that position to grow. We're very focused on driving that growth.

Simultaneously, we still have work to do in our supply chains. Tony's going to tell you about our supply chains when he gets up. We are much better than we were. And not nearly good enough to be where we want to be. And the same thing holds true when you look at our people in the company, we're still not as mature as we'd like for making sure we have all the right people in the right place at the right cost, make sure we've optimized our position. And those are, Katie, let me say it again, material, material opportunities for improvement for us, material.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

For us, we will try to do those in some sort of synchronous way as it relates to our increase in our coverage. But if it was out of sync a little bit, that would probably be okay; as long as we find quality places to invest to drive that growth. So think of us looking at both things simultaneously, trying to align them. But we're going to go drive growth.

**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

I think the other thing, Katie, that you should think about and -- is when you think of those ranges that we put out, part of the -- what drives that range is the amount of reinvestment that we do, depending on what the market conditions are. And so we deliberately built ourselves some room there.

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

I'll let you choose the people that are questioners so I don't take all the heat and --.

**Toni Sacconaghi** - *Sanford Bernstein - Analyst*

Yes. Toni Sacconaghi from Sanford Bernstein.

**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

Hi, Tony.

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

Hi, Tony.

**Toni Sacconaghi** - *Sanford Bernstein - Analyst*

Implicit in your forecasts and commentary around it for fiscal year 2010, is actually a fairly pessimistic view of technology spending market growth. So you're saying we're going to grow 3 to 4, there's a point or more in currencies, I'll just call it two, and we're going to grow faster than the markets. If the markets are going to grow a zero, despite the aging infrastructure you refer to, the data explosion that you referred to, do you really believe that, Mark? That the market's going to grow at zero? And can you comment on that?

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

Sure.

**Toni Sacconaghi** - *Sanford Bernstein - Analyst*

And then, Cathie, maybe a follow-up. What does every point of market growth and growth for HP translate, assuming it's linear across the portfolio, into your EPS leverage?

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

I'm going to answer the first one. I'm not sure she's going to answer the second one for you. On the first one, Tony, I would try to what I said in the last question. Focus less on the implied prognostication for market growth and focus more on us doing better than what the market drives us.

Right now, what I would tell you, is that customers are deciding what they're going to do in 2010. I meet with tens and tens of them. And we're right now in the window where that planning cycle is occurring. So think of two things. One, we don't know that answer yet. We have opinions on it and they have broad ranges, Tony.

So what we do, when we build a financial model, is plan low. We then force the expenses, think of that as revenue, we then force our expense structure to the appropriate levels to drive appropriate earnings growth. We then make sure that in that expense structure, we have the ability to go to the high end of that range if in fact that occurs.

So I would tell you, if I followed down all of your points that you described, and I -- you have -- my head's nodding, is -- as you're mentioning them. It could be better. It could be better. At the same time, the currency, to your point, we don't track the spot rate on currency every 15 minutes. I mean, for us, it can change as quick as it goes. We do some level of hedging, to Cathie's point, but if the currency is better, we'll do better. That's what it is.

So we try hard not to let currency be an operating support pillar of the company's business. Nor do we want to say, convince ourselves, you know all the things you just said, I feel really good about. So growth is going to be through the roof. So why don't we go to this, do that and do that? No, let's not do that. Let's make sure we're following the discipline that we've grown to appreciate and let's ensure that if the market does grow better, we nail it.

And that's what we've done in this plate. So don't do what you did. I understand you're going to do it. But I would encourage you to say don't focus on that answer. Focus on the answer that whatever that is, we'll do better than that.

---

**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

And, Tony, just on your second part of that question, I'm not going to give you a whole lot here. But one thing I will encourage you to think about is that when you get an extra point of growth, it really depends where that growth comes from. Because obviously if the growth is in printing and it's in hardware, the operating profit impact is actually negative in the short term. Obviously the right answer for the long term, from a supplies perspective.

And you see something very similar when you think about our IT outsourcing business as well as our managed print services businesses, where these are transactions that are over multiple years and the early years are under a lot more profit pressure than the later years. And so you've really got to think about where that growth comes from, specifically by segment, on -- to really understand what drops to the bottom line.

Obviously if it's under ISF or enterprise server and storage or storage specifically or networking, you're going to get a nicer drop.

---

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

We do believe that more growth, though, is good.

---

**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

We do.

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

We do. It's a principle we've got.

**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

And we're focused on the long term and that's why.

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

Yes. Yes.

Please. Yes.

**Scott Craig** - Banc of America-Merrill Lynch - Analyst

Hi. Scott Craig, Banc of America-Merrill Lynch. Just a quick -- two quick question here.

First, Mark, how's HP thinking about a fourth quarter budget flush or seasonality from the corporate side of things? It's something that a lot of people are talking about right now.

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

Yes.

**Scott Craig** - Banc of America-Merrill Lynch - Analyst

And then secondly, with regards to the services operating margins, it seems like you're being a little bit conservative there. You already have it at 15%. The fourth quarters' typically seasonally stronger and you've got a billion of cost savings coming through, that should, even at 500 million, add another 150 basis points. So how conservative are you guys being in the services margins for next year?

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

Well that was a lot of questions, Scott. I'd say, first, we're -- that relating to the fourth quarter "budget flush," I mean, as we said in our Q3 call, I think really the bigger question right now, remember how fourth quarter ends at the end of October. So that is, from a calendar quarter sort of perspective, sort of the first month of the calendar quarter for most companies.

I think right now, we're much more focused on what decisions are made for '10. If there is that "budget flush," back to Tony's question, that's an excellent sign for what's going to occur in 2010. And I think that's the more relevant issue right now for us, because that implication at that point probably has more effect on our fiscal 2010 than it will be in our fiscal 2009. Your question about margins, remember, last year we gave you 11%, 13%?

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

For 2010, we gave a prognostication of 11% to 13%. Just a year ago. That was for '10. Long term, we thought it was 13% to 15%. Today, in '10, we're talking about 15% to 17%. So we are making great progress on the cost initiatives in the services area and I think the other really important thing to realize is that it's not just EDS. It really is a balance of technology services as well as EDS.

And in terms of are we being conservative, what we want to is we want to be -- we want to set ourselves up to grow. And that growth is going to require more market coverage and it's also going to require, as I mentioned earlier, us taking on deals, new deals, that are going to be in the early stages when there's more profit pressure. And so it's the combination of those things that are going through that margin forecast of 15% to 17%.

---

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

I think it's just exactly right, Scott. I mean, for us, we -- our funnel of opportunities in services is extremely robust right now. And so for us, we want to take advantage of that. You've seen a big announcement today, we made with a deal in Latin America. There are many opportunities for us. And we want to take advantage of those.

And again, it's no different in HP Financial Services than it is in the outsourcing business. Every year, every level of maturity in the model has a different profit profile, with the transition work you have in a new deal, it can affect profitability.

So again, for us, think of us selling you the new range is 15% to 17%. Within that range, we feel comfortable we could do exactly what Cathie just described, and that's invest for growth and be able to do what we can do with the new opportunity we've got and the funnel that we've built. And we think that can continue to build.

I'd also tell you that the drag effect that it potentially can have on our portfolio is pretty exciting. So we don't think we're being conservative. We think we're actually telling you where it's going to be and yet in that range, we think we can drive a pretty reasonable growth profile that could be pretty exciting for us.

Yes? I'm sorry. I've got a microphone down here too.

---

**Ben Reitzes** - *Barclays Capital - Analyst*

(inaudible question - microphone inaccessible)

---

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

It's helpful. It's helpful. We're doing this webcast.

---

**Ben Reitzes** - *Barclays Capital - Analyst*

Thanks. But they can't see me anyway. So it's Ben Reitzes at Barclays. I wanted to ask just with regard to the EDS progress, Cathie, it looks like sort of based on the chart from last year and this year, you got 500 million extra savings run rate as you exit this year, is that correct?

---

**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

There's a \$500 million --.

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Ben Reitzes** - Barclays Capital - Analyst

Next year, I mean.

**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

It's not next year, right? It's -- the model is that we went from \$2.5 billion, kind of timeless, a year ago to \$3 billion this year. And that really is coming from the incremental real estate opportunity that we announced at the end of our Q2. So that's really what's going on on the timeless.

And then on the terms of kind of '09 versus '10 and the model that we provided a year ago, we're -- we've moved faster. And so you see some of the savings being pulled into earlier years. As well as then starting next year to execute a little bit on the incremental real estate investment.

**Ben Reitzes** - Barclays Capital - Analyst

Well, so I was calculating. And I kind of got \$0.15 or so versus where you were thinking for FY '10. I was just wondering where that went? Because it would seem that you're growing your EPS 11%, it would seem pretty conservative to go to 4.25, the midpoint, if you have an extra \$0.15 or so savings. Did that get absorbed by the revenue maybe this year being weaker than expected? Or higher reinvestments or anything like that? If you could just put some context around that?

**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

Really, I think it's the context we've been talking about. And the fact of the matter is we're assuming a certain number of new deals that come in. We're also assuming that we're reinvesting that additional cost savings in appropriate ways to drive growth next year and well into the future.

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

But, Ben, to be clear, right? I mean, whether that is exactly what Cathie -- the way that we build our models is we would build our model to grow at the high end, if that happens and reinvest to make that happen.

If in fact that high -- you might think that we might have a model that would plan for this growth, drive the costs that would occur if that occurred. If that growth didn't occur, the fact is EPS actually goes up in the context of how the service models were. So it's a big deal for us to be able to come out of the chutes well because you have a transition cost with each of these deals that you do sign.

**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

And in terms of your comment about our revenue being weaker this year, we have made great progress in our pipeline. It's up double digits year-over-year. It's got very high quality names in there and deals that frankly without EDS, we wouldn't have had the capability and EDS wouldn't have had the entree. So if anything, we're -- we couldn't be more pleased with the progress we're making on that side of the equation, with respect to EDS.

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

Hi.

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Keith Bachman** - *BMO Capital Markets - Analyst*

Hi. It's Keith Bachman from Bank of Montreal.

Mark, I wanted to ask you about the printer business.

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

Sure.

**Keith Bachman** - *BMO Capital Markets - Analyst*

You have growth listed at basically plus or minus one. And within that is the commercial side of the business. What you talked about is the digitization.

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

Right.

**Keith Bachman** - *BMO Capital Markets - Analyst*

But that's really about 15% of your business, I think. And correct me if I'm wrong, but I want to just hear if you could break down the composition of how you see the growth of the printer business?

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

I think you should expect us to, Keith, I'll go back to my share view. Gain share materially again in graphics. So again, which I think is most where you talk about the commercial market. That business will grow.

I think you should expect us to have meaningful growth in managed print services, again, another part of the commercial business that's really more about the enterprise part of the business, the top 4,000 to 5,000 accounts is what we really focus on. And then you have small and medium business.

So for us, the growth is, in those markets, should be good next year. We're coming off years, as you know, in the graphics business, most of those customers are small companies. And they're the ones that have probably been hit with this liquidity issue at least as bad as any other segment that we deal with. So we'll see what kind of rebound occurs in that part of the market, but we would expect strong. Let me say it one more time, strong market performance for Hewlett-Packard again in those segments.

The key will be the liquidity for that small and medium business and what occurs in the graphics business. If that liquidity is better, we could do better. We could do better. And again, think of it one more time, Keith, we haven't modeled, and I can almost make this statement for every business we've got, we've got ranges of growth depending on the number of algorithms. And we have not baked that number into our plan. We've baked that number into our plan.

What we do then bake in is a share position in each of those businesses. And then we try to have enough elasticity in our expense model to be able to go get that share if that opportunity presents itself. That's how our models are built.

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

So back to the point about 1% growth, one thing to remember too, Keith, is that's a reported number, with the convergence now of, in total IPG, of currency and channel inventory re-evaluation -- let me get the right word for it. Rebalance --

**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

Sort itself out.

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

Sorting itself out. Thank you. To be able to get to the right position. If, particularly unemployment, you're going to hear VJ talk about this in a second, in greater IPG, we look at GDP trends in cycles and we look at unemployment. If those numbers were to get a little bit better, when people are employed, they print more. When GDP is better, there's more to print. So if those numbers are better than the norm, it could be a better year. We'll see.

What our guidance is right now is what we said and imagine, if that market is there, we'll be there to get it.

**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

And our guidance, overall, for IPG, includes hardware units are growing again. And it also includes the fact that we believe that hardware revenue will grow faster than supplies revenue.

**Bill Shope** - *Credit Suisse - Analyst*

Bill Shope, Credit Suisse. Mark, it seems obviously we're hearing a theme of market share gains across the board, as one of your top priorities going forward. That in turn ties into growth. I was wondering, given the importance of that goal, if we could just hone in on that a bit more, and perhaps if you could tell us, within your key business segments, what segment do you think you have the most opportunity for market share gains and why? And which segment do you think is going to be the most challenging for you, and how do you solve that?

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

Yes, Bill, I probably for the sake of time won't go through it segment by segment. But let me say it this way. I think we feel pretty well positioned in general across the portfolio. So I'd harken to say to give you a ranking list. I mean, obviously, there's some places we're obviously extremely well positioned, but we feel pretty well positioned.

And I think that includes what you can hear coming from Cathie and I and our services business. This is a pretty neat position that we're in, and with what we've been able to execute with EDS. But we feel pretty well positioned across the portfolio and I don't want to get into a process where I rank them because it's inevitably going to be a bit off in what I give you as I try to rattle it off.

We feel well positioned across the portfolio. It's -- Bill, I would say it -- let me try to say it this way. This is almost five years I've been here. This is the best position we've been in.

**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

The other thing I really want to highlight, because I think you could take your question and walk away with a sense that we're going for market share for market share sake. That's not the case. The reality is that we've got the right portfolio. We've done

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

the right cost structure work. And we're investing in our sales coverage in order to get that market share, but do it at a solid profit. As you can tell, obviously, from the guidance we provided. But it's really important. We have not shifted our swing from profitable growth.

---

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

Yes, I think that's a good point. I wouldn't want any of my comments to say that we're going to do dopey stuff just for the sake of market share. That's not what we're thinking about.

We just feel well positioned. And what I was really trying to do is more get you away from the HP is predicting this amount of market growth sort of view. Is there a series of catalysts that could improve that? The answer is clearly yes. It's just not the way we've built the model. We've built the model trying to be conservative in what we think might occur and trying to put ourselves in a position that if in fact those catalysts occur, we can take advantage of it.

---

**David Bergman** - *Goldman Sachs - Analyst*

In addition to cost savings for EDS --.

---

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

Okay.

---

**David Bergman** - *Goldman Sachs - Analyst*

One of the ways --.

---

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

One piece of help. Just tell me where you are.

---

**David Bergman** - *Goldman Sachs - Analyst*

Sure. David Bergman --.

---

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

Hey, David.

---

**David Bergman** - *Goldman Sachs - Analyst*

Goldman Sachs.

---

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

How are you?

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**David Bergman** - Goldman Sachs - Analyst

Hi.

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

Nice to see you.

**David Bergman** - Goldman Sachs - Analyst

Hi. In addition to cost savings, one of the ways that the EDS deal was presented to the Street was the opportunity to increase enterprise penetration and you guys talked about how much behind IBM you were. So could you update us on that? Quantify it? Or just how much success have you had and sort of where does that upside opportunity appear within the revenue guidance?

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

You know what, David? I think its better, when Ann gets up here, she'll pick -- just so we don't get redundant. So I can take more questions here while I'm here. Let me say this, we made a lot of progress. A lot of -- the good news is, coming into it, was the EDS position, from an accounting perspective, was -- it almost looked purposeful. That somebody went off and said you go work on these accounts, you go work on those accounts; trust me, we're not nearly that clever.

But yet, it was very synergistic. So the positions that EDS had were in places, frankly, that I can only think of a couple where there was any overlapping material position.

So you take the announcement we did with AMR not more than a couple of weeks ago. Not an incredibly strong HP account. An extremely strong EDS account that we wouldn't have been in a position to take advantage of.

And then there's the second type of opportunity, which is the one when we closed American Express. It was actually a fairly strong position for HP, not a strong position for EDS, but the combination of the two put us in a different position than we've ever been before. So as optimistic -- as you, no doubt, I'm not an optimistic person by trade. I would say that at the end, as good as I felt about it, a year ago now, I feel better about it today. From both a cost perspective and a market facing perspective.

**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

I think you're also maybe getting a little bit to the pull through. And Ann has some specific data points that she's going to provide in terms of how that pulls through the entire portfolio and the progress we're making there as well.

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

Hi, Bill. Oh, sorry, I messed up. Somebody else has the microphone. I --.

**Rich Gardner** - Citigroup - Analyst

Hey, Mark. It's Rich Gardner.

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

Hi, Rich.

**Rich Gardner** - *Citigroup - Analyst*

I -- Oracle's obviously a very important partner of yours.

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

Yes.

**Rich Gardner** - *Citigroup - Analyst*

So I'd like to get your thoughts on the Oracle-Sun transaction and what it means for your partnership with Oracle, what opportunities you think it presents for HP and how aggressively or vigorously you expect them to compete with you in the hardware space?

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

So as -- I mean, we look at the market as a big market. We're very comfortable with co-operative relationships, Oracle's been a great partner of HPs for a long time. I don't expect that to change. I don't expect that to change.

Do I think it's -- that Oracle can compete in a segment of the market and we can still have a great partnership? I do. So we're comfortable with that. Does that doesn't mean that at some points we can compete. We'll compete vigorously.

Let me take one more. Okay. Yes, I just hate to be in this selection process. It's a lot of pressure.

**Brian Alexander** - *Raymond James - Analyst*

It's Brian Alexander.

**Mark Hurd** - *Hewlett-Packard - Chairman, CEO, President*

Hey, Brian.

**Brian Alexander** - *Raymond James - Analyst*

With Raymond James. Hi Mark. When you say you want to grow faster than the market longer term, just to clarify, is that organically or does that factor in acquisitions?

And then on EDS savings, the investment rate that you've outlined a year ago of 30% has changed. I understand gross savings have gone up by \$500 million, but what about the net \$1.8 billion? Is that still the same number?



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

Yes. So I think I'll let Cathie take the EDS question, but I'll take the first one. We generally think of that growth as organic. So it's not, for us, when we build our models, we build them generally in an organic basis and we don't have a plug in that says, hey go to the balance sheet and get some money, put it in there. We go through the process that Cathie described which is, again, acquisitions have to make strategic sense, financial sense and that financial sense includes, for us, the alignment between the balance sheet and the P&L.

So it's an organic general plan that we build when we talk about growth rates. I'll let you take the EDS question.

**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

So in terms of the reinvestment rate, I'm not really prepared to give you a specific percentage. And part of the reason for that is we view kind of the reinvestment also as taking on more deals, new deals, kind of in their early stages. And so that will obviously flex a bit on what technically the reinvestment rate is.

In terms of the acquisitions question, the only thing that we do do with respect to acquisitions, and we've talked about this in the past with you all, is that when you model the cash flow and the OI&E impact, we do have a placeholder in about \$1 billion in acquisitions that we do. We don't put any -- we have no assumptions around additional revenue that will come from that. It's simply a placeholder from a modeling of cash flow and OI&E.

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

And nor is it necessary for us to have to spend that.

**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

Yes, we don't feel compelled to spend --.

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

We don't feel compelled in that respect.

**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

We don't feel constrained by it, nor do we feel compelled by it.

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

But it's just a modeling thing.

**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

Yes.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

To make sure we have the right alignment. All right. Well what we're going to do is take a break for 15 minutes. That should put you right back here at 2:40 and there will be people trying to ensure that we keep the discipline to stay on time. Thank you.

(BREAK)

## PRESENTATION

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

Okay. That's a different intro than Jim Burns. So it's -- see? And you told me I couldn't yell out?

So this is a start, where we're going to talk a little bit about -- we're going to talk awhile about our portfolio. So what we're going to do is have Todd come up, he's going to talk about PCs. Ann will come up. Dave Donatelli. Everybody that Jim described.

What I want you to think about this, though, is as an ecosystem that we've built over the last several years. The company's spent over \$17 billion on R&D and bought over 30 companies over that time frame.

Now it's been important for us, not just to think about it in the context of a segment, but to think about it in an aggregate capability, Putting ourselves in the position to grow. Our supply chain is an advantage across all of our segments, a leverage point that we can take advantage of across each segment.

As we told you, these segments, while in some cases, in servers and storage and networking, similar in revenue and market size, very different in gross margin. With some very different attributes with customers asking us to do more. And it's our objective to respond to those requests.

It's been important for us to not only be in that infrastructure business, but to support that from a software perspective. And the management software and the tools software market is amongst, if not the, most fragmented software market in the industry. Go ask a customer what applications they've got, many can now tell you. Go ask them what databases they have. Go ask them what servers they have. Many can now tell you, not all, but many.

Go ask them what tools they have. Go ask them for an inventory of all the tools they have that connect that infrastructure. You'll get a couple answers and a lot of requests for help.

It's a market that's fragmented, that's important for us to lead, and additionally to align with our infrastructure business and at the same time, a key element of automating the processes of the Services business. So back to the question about the EDS activity, again, when you drive a services business, one aspect of it is you've always heard about arbitraging labor. That's sort of a traditional way of thinking about how to align costs and service business. It's not the future of where services is headed. It's actually automating those processes, standardizing those processes. and actually not arbitraging the costs, but eliminating the costs. At the same time as you raise the service level.

So in this system, our supply chain support to each of our segments, our segments are also supporting and supported by our software business and our software business is a key element strategically in automating our services business. And I want you to think of this as an integrated ecosystem, as opposed to separate piece parts.

And we go look out in the market and say the ability to go replicate that capability is pretty tough. So with that, I'm going to start by introducing Todd. Todd's going to talk about the PC business and then we'll have the rest of the presentations.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Todd Bradley** - Hewlett-Packard - EVP - Personal Systems Group

Great. Thanks, Mark. Good afternoon. As Mark said, we're going to spend our time looking forward and really not backward today. And I'd like to share with you where we see growth opportunities in the PC market. And why we're confident in our ability to translate that into profitable growth.

Given the economy in 2009, estimates in the PC industry for 2010 from various analysis, and frankly a number of you in this room, present a range between a few point of growth and a few points of contraction.

As is customary, we've planned conservatively and will execute aggressively. And to this end, we're planning modest revenue growth in the total market through 2010, growth in the total market.

Our momentum, our scale, frankly our global reach puts us in a very, very strong competitive position and gives us competitive advantage. And as Mark said earlier, for HP overall, we will outgrow the market in the PC industry in 2010.

Obviously we see significant growth opportunities globally. Geographically, the high-growth countries that have powered the PC market through 2008 and the first half of 2009 are poised to resume that growth. China, India, Brazil, the size and potential of these markets remains extraordinarily attractive and markets where we are well positioned to execute a plan for profitable growth.

Consider, for example, that you see US PC penetration is at about 912 PCs per 1,000 of population. And while this base provides a large market opportunity through both corporate refreshes and multiple PCs per household, the absolute potential in many international markets is just as significant.

Brazil with a penetration of 224 units per thousand; China only 127; India penetration only stands at 36, so enormous opportunities to leverage our scale, our scope, our coverage and our go-to-market capabilities.

And I think it's clear that momentum favors us. We agree with analysts and that -- we agree with analysis that the age of the installed base of PCs, particularly in the corporate segment, has lengthened to beyond four years in most of the emerged markets.

Places like Japan, we actually see an aged base of potentially five years. That pent up demand will translate into sales opportunities throughout 2010, and given a number of different triggers, from the rising costs of maintaining that aged fleet of PC clients to the introduction of Windows 7, to the emergence of wireless carriers as a very viable, incremental distribution channel.

And you can see from this chart, HPs momentum over the past four years, we believe, puts us in a very strong position to continue that profitable share of growth that's driven our business. We are much stronger today than we were four years ago.

And consolidation among the leaders, at the expense of both niche players and white boxed manufacturers will continue. You will likely see us lead that.

Consider business notebooks, a fast-growing, attractive segment for HP, has improved its share position by more than three percentage points just in the past year. And if you run these trends out, another 4 or 5 years, I think it's a fair assumption that there will be fewer players making up that rest of the market bucket. And that bucket will be smaller. And I totally am convinced that HPs share will be larger.

In PSG, we remain committed to the strategy that we've executed over the past four years. Even during this economy, we maintain the same discipline in our spending and in our investments to win a greater share of the business.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

In an economy where we've seen revenues contract 18% through the first three fiscal quarters, our variable operational model means that our spending flexed down as well. Our spending flexed down with revenue and allowed us to continue to drive profitability. So the -- so while the economy clearly remains a factor, it doesn't stop us from driving those things that we have control of.

The foundation of our strategy is built on efficiency and we believe this is more than just simple cost cutting. This is how we've transformed our business, by managing the levers that drive customer and shareholder value.

Take our call center transformation as an example. I'm most interested, not just in how we've improved our costs and profitability, but how we've improved the experience that our customers receive.

Third-party surveys by companies like TBR, the American Consumer Satisfaction Survey, others like University of Michigan highlight the improvements in customer satisfaction in both our business and consumer segments. That said, we continue to drive down both supply chain and warranty costs.

And as Mark said earlier, in PSG, we've identified further opportunities across our business from how we bring products to market, how we supply them, how we support them, to continually drive efficiency. And you'll see us aggressively execute against all those opportunities going forward.

We believe there's still growth in core PC business. In 2009 -- throughout 2009, we've been investing in opportunities that we believe will pay benefits through the years ahead.

The 20,000 square meter manufacturing facility we've built in Chongqing, China, gives us a local footprint in western China that is the foundation of both the company strategy -- the country strategy to drive growth into western China.

From a product perspective, we've got the most comprehensive portfolio in the PC space. And I hope you had the chance to see some of those products outside. We're expending --expanding the HP touch bar experience from the desktop all-in-ones to notebooks. From consumer products to commercial products; leveraging our own software layer that sits between the operating system and the application, we're driving that richer experience, that better entertainment capability. We're driving kiosk opportunities, whole new ways of using touch as a product and an application.

We saw a great deal of activity in the market around the mini note and Netbook category. And we've participated in this segment with industry leading design, with durability and display technology and performance that exceed market requirements, but at comparable margins to our standard entry level products.

Moving up in value, just last week, we introduced the new consumer and business thin and light notebooks, ranging in price from \$579 to over \$1,000. The mini category was extremely useful and one of the big drivers to the emergence of the telco channel. It's allowed us to expand those channels of distribution into some of the major players. Connectivity is truly becoming one of the next drivers to adoption. With partners like Telefonica, Verizon, Orange, China Mobile, we are delivering on that connected experience.

And these partnerships become even more critical as we build out our product portfolio into this rapidly emerging connected space. When we look at new adjacencies we continue to invest in delivering on innovation that matters to our customers.

Earlier this week, I think you saw it outside, we introduced the HP SkyRoom, a disruptive software solution for collaboration. That SkyRoom software is HP IP, built in our labs just down the road in Palo Alto.

And with it, you can connect and collaborate in a rich, vibrant experience across multiple locations. You can share high definition footage or complex 3D graphics alongside video conferencing, all right at your desktop, taking some of those capabilities of



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

our haloed product and putting that on your desk. It's a unique HP solution that will ship standard on some of our premium workstations and PCs.

It's also available as a standalone software client. A software solution priced at \$149, if you think about it, that's less than the roundtrip ticket from San Francisco to San Diego. And this solution can run broadly. It can run on some of our competitors products. The important part is bringing them into an HP experience.

So from accessories to connected mobile devices, to digital signage and retail point-of-sale systems, we've identified \$48 billion in available market opportunities and adjacent solutions incremental to the core PC business, that can provide us with above average margin contribution and can provide further growth for our business overall.

All these investments come together to inspire our customers, our partners, our employees to make the HP brand stronger than ever. And we're committed to further building on that strength, with a brand that's broad, with a loyal customer base, a brand that can command preference in the marketplace.

And really, what began four years ago as a vision of making computing personal again has become a reality. It's become a magnet for marketing partners, who share in our goals to inspire customers.

Partners like Microsoft, Time, Verizon, YouTube, are increasingly coming to us, allowing us to leverage our and their marketing spend to cover a greater audience and to further drive penetration.

And I think our brand has gained preference over the past several years. We've revitalized our multi-million dollar Compaq brand, including new customer marketing campaigns that you'll see rolling out this fall.

And the combination of brands and the momentum behind each globally allows us to compete more effectively at the lowest entry-level price all the way to some of the highest premium price bands and frankly, everywhere in between.

We've also targeted our investments this year in places where we, frankly, haven't shown up enough. Like the small business market. We've identified over 25,000 accounts that are now targeted into our new call center that we've built in New Mexico. And we know that this profit pool that some of our competitors have enjoyed is fertile ground for our products, for our services and frankly for our ability to execute and deliver a compelling value proposition and overall experience that will win this business and help us gain traction in that critical small business space.

So I continue to believe we're uniquely positioned to win. And execution is clearly the key behind being successful in the PC business. The discipline we've driven, we've applied for the past four years has helped us weather a very challenging 2009. And I believe it positions us well to capitalize on the growth that we see coming in 2010 and beyond.

The balance of our portfolio across customer segments, across geographies, product categories, channels, means that we will be where growth is.

And our ability to provide a differentiated solution to our customers, from industrial design of our own hardware to our software interface, to emerging product categories means that we will stand out when customers go to buy And behind all of this is unprecedented global scale makes us more efficient, more responsive and more aggressive than anyone in the marketplace.

I mentioned how critical scale is to PSG and how it's fueled our profitable growth and our competitive position. That scale benefits the entire company. To explain further how HP leverages our scale, we'll next hear from Tony Prophet. Tony is a part of the PSG leadership team, where he runs our supply chain and operations. In addition, Tony leads all direct procurement for Hewlett-Packard. Tony?



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Tony Prophet** - Hewlett-Packard - SVP - Personal Systems Group Supply Chain Operations

Thank you. Thanks, Todd. Good afternoon. HPs operating advantage can be measured across three dimensions. First, we persistently attack complexity, driving out fixed costs. Second, we have industry leading scale, based on our PC and our printing businesses. And third, we're driving the PC scale into the enterprise space by applying more industry standard components.

I'd like to begin by describing to you how we've attacked complexity in the PC supply chain. Now the HP-Compaq merger left us with about 70 sites worldwide. More than half of these sites were in high-cost locations, many were company owned and unfortunately the complexity that you see is just the tip of the iceberg.

Each of these sites had to be supported by unique inbound hubs, outbound hubs, IT systems and connections, site-specific planners, schedulers. Read all of that as overhead. Read all of that as fixed costs.

On top of that, the network was highly biased towards building desktops. Now this was on the eve of the secular shift to notebook. So it was clear that in order to survive in the PC business, this network had to be fixed.

Now recently you've heard others talk about transforming desktop-centered supply chain in a handful of quarters. This transformation took us more than five years. It was a tremendous amount of heavy lifting.

Today, we have less than half the sites. Today, most are in low-cost countries. Today, less than a quarter, are company owned. And importantly, the hidden costs have been slashed. The inbound hubs collapsed, site-specific overhead eliminated.

As a result, the cost of transformation, this is not the components, the cost of transformation to manufacture and transport the products has declined by 30% from FY '09 -- sorry, FY '05 to FY '09. But our strategy's about more than simply reducing costs and eliminating sites. It's also about fostering growth.

Take Chongqing, China, for example. This is China's largest municipality. If you draw a 1,200 kilometer circle out from Chongqing, within that circle are 300 million people.

Standing alone, that would be the world's fourth largest country, but what's not within that circle are any significant PC assembly operations. There's no Lenovo, no Dell, no Acer. We're about to change that. We're building a world-class final assembly site focused on notebook, desktop and displays for western and rural China. And as you know, western and rural China are a primary focus of China's growth, stimulus and investment plans. So HP is well positioned to benefit. So we're proud of what we've accomplished, but there's more to do.

We've made good progress attacking complexity within our businesses, but we see plenty of opportunity across our businesses. For example, as we showed you, we've cut the complexity of the PC supply chain network about in half, but add to the complexity of that network the assessment work, and after that, the IPG network. And to that, our distribution centers.

Now what you see is lots of complexity. What we see is opportunity. Imagine the impact, if we could just cut the complexity of this by a quarter. And we've demonstrated that we can successfully attack complexity, the cost of our supply chain. Now I'd like to describe the scale of our component purchases and the benefits of that scale.

HP has the IT industry's single largest supply, with approximately \$50 billion. We build a server every 15 seconds. We built two PCs every second. And even where third parties assemble the products for us, we retain control of the purchases of the key component technologies. Microprocessor, memory, hard disk drive, chip set, LCD. This makes us the largest single purchasers of most of the component technologies that we use and the largest customer of most of our key suppliers.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

And that scale extends beyond components. Take air freight, for example. HP controls more than 10% of the outbound air freight cargo tonnage from Shanghai Airport, as an example. That's equivalent to a fully laden 747 freighter every seven hours. And we use our scale to garner superior pricing, advantaged terms and assurance of supply in times of shortage.

I'd like to share with you just an example of how our component scale supports our share gains. And this looks at the period back from 2006 to 2008. But really this could describe any period because really there's persistent issues and shortages that we see and that we're always managing and working across the supply chain.

So the first example, November 2006, we saw a serious memory fab process problem. This affected 6% of the industry's capacity. In October 2007, a significant battery factory burned in Japan. 15% of the notebook -- worldwide notebook battery capacity was gone overnight. Then in March of 2008, lightning struck again. Another battery factory burned in Korea; 20% of the worldwide notebook battery capacity gone in an instant.

So we really could cover the chart with examples of panels and processors and et cetera. But the point being, it was generally a challenge and when the market is growing and components get constrained, the supply chain that gets those components, the supply chain that supports the business in gaining share.

Now over this period of persistent shortage, our quarterly notebook unit shipments grew from slightly less than 3 million notebooks a quarter to about 8 million notebooks a quarter. Our worldwide PC market share grew from about 16% to about 20%. We used our scale to get the components we needed to facilitate our share gains.

Now for others, it seems fashionable to talk about just-in-time deliveries and zero inventory. You're much more likely to hear HP talking about strategic buys.

Since FY '06, we have reduced, for the PSG business, reduced our total inventory. And -- but there's been a shift within that inventory. We've reduced the operational inventory; think about that as work in process, things on ships and boats and planes and moving. We've reduced the operational inventory and we've taken that inventory savings and invested it into strategic buys.

We make these strategic buys, generally, generally, in times of surplus, when prices are advantaged, and then we lever those strategic buys in times of shortage.

Having these strategic inventories, these strategic buffers, allows us to negotiate prices from a position of strength and we believe this is a pricing advantage. So the bottom line for us is component scale gives us better pricing, terms and insurance of supply. And we are extending that scale further.

How are we doing that? Consider that using unique parts in an enterprise hardware diminishes our scale advantage. Unique parts drive hidden costs, of design costs, component qualification costs, support costs, inventory costs.

We are extending our PC scale into the enterprise space by driving more industry standard components into our enterprise hardware. Take the latest generation of non-stop service, for example. Those -- the product has gone from very -- industry-specific racks -- or I'm sorry, unique racks to industry-specific racks, right?

It's gone from industry-standard -- or, sorry, unique chassis to where now they're integrating with our blade chassis. And from a relatively unique hard disk drives to now it supports industry standards, SAS hard disk drives.

Our ProCurve products, for example, are 70% strategic standard components, for example, memory and power. And with the launch of the 6120 series now can also be integrated into our industry standard blade, C-Series racks.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

The more progress we make here, the more we bring our PC scale into the enterprise space. So we accomplished a lot, the business is markedly better, but there's -- we still see better opportunity ahead, particularly at the pan-HP level.

For example, of the over 200 nodes we showed you earlier, less than 20% of these are shared across multiple business units. Only about a third of our supply -- critical supply chain IT applications are shared across multiple business units.

Only about half of our key components are purchased on a pan-HP basis. When we study the spend that's not purchased in a centralized fashion, we generally find a fragmented supply base, inconsistent terms and lost scale. We can and we will do better. Our bottom line is, we see the primary levers of attacking complexity, leveraging our scale and moving that into the enterprise phase as a foundation upon which we will innovate.

Ann Livermore, Executive Vice President of our Technology Solutions Group, is here to tell you more about that innovation in the enterprise -- in our enterprise businesses. Ann?

---

**Ann Livermore** - Hewlett-Packard - EVP - HP Enterprise Business

Thanks, Tony.

---

**Tony Prophet** - Hewlett-Packard - SVP - Personal Systems Group Supply Chain Operations

Thank you.

---

**Ann Livermore** - Hewlett-Packard - EVP - HP Enterprise Business

Thanks, Tony. My team and I will take the next section of the agenda to explain to you why HP is uniquely positioned to win in the enterprise business. We'll show you about the opportunities we have for growth, and at the same time, areas where we still have costs that we can reduce.

If you look at our Enterprise business, our servers and storage, our software, our networking, our services business, it's much stronger than it was a year ago. It now represents about 47% of HPs revenue and 56% of our operating profit, if you look at it for the year-to-date results.

The Services business, as Cathie mentioned, is the biggest segment inside the company. And our product categories and our service categories, we're now number one or number two in every single category where we participate.

We have a total available market, a TAM, which is approaching \$800 million, and inside that TAM almost three-quarters of it is based on service. So now with EDS and our much stronger services presence, we can compete for that business in a much more aggressive way.

We've made a number of investments over the last few years in terms of innovation and market coverage, also the M&A that you're familiar with that we've done in addition to our organic R&D. And all of these things have put us in a position that's much stronger than the past. And at the same time, we still have a lot of room for improvement in our supply chain, as Tony demonstrated, and also in our workforce optimization model.

I want to describe to you in a little bit more detail the enterprise business advantage that we have that Mark outlined in his comments. We start with the very big advantage we have in terms of the economies of scale and the quality of our corporate functions and the supply chain activity that Tony mentioned to you.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

None of our competitors in the server space, the storage space or the marketing space have the supply chain advantages that my team has, based on the leverage of the volume of our PC business.

You can build on top of that our offering to the marketplace, the first offering around converged infrastructure. Dave Donatelli's going to tell you more about this, but the market trend that is happening is for servers, storage and networking to become much more integrated. To become much more seamless than to virtualized pools. And we're the only company who has all three of those assets.

You layer on top of that management software. And with any IT environment, any IT architecture, how you manage it is one of the most important advantages that you can deliver to the clients. It's what they worry about the most. It's what drives their adoption rate of new technology. And our portfolio here in terms of the management software, to manage and automate IT operations is second to none.

Further, from a software perspective, we're investing in the software to be able to help customers address what's becoming their single biggest problem. How do they deal with the explosion of information that they have? What do they do to be able to classify information, to preserve that information? To be able to archive that information, then discover it, analyze it, turn it into useful information.

We believe this is going to be the single biggest problem most public sector customers and business customers have over the next five years. So we're investing both in our software area as well as in our services area to have leading capabilities here.

And Tom will tell you more about what we have here in terms of our archiving solutions, our business recovery activities, our data and business recovery activities and then on top of that we can do from an enterprise state or warehouse perspective.

But on top of that, think about underneath of it, we have the servers to process the information, the storage to store it, the networking to bring it all together. The software tools, I mentioned, and then the services to help customers lay out the plan and actually take advantage of this.

We then link to that capability of helping people deal with their information problems, some very industry specific solutions. And you'll see some of these solutions tie back to that need to take advantage of information for faster time to market of new products, more customer information, regulatory type requirements.

We'll have some solutions that are very specific to industries. And again, this is something HP could not have done nearly as well, been nearly as strong competitively without the acquisition of EDS. And you'll see us choose specific segments and have intellectual property in the form of services and software inside those industry segments.

And as Mark mentioned, we wrapped this all with our services portfolio. This is why our services portfolio and the power of the EDS acquisition puts us in such a different position. And we can deliver any way customers want us. They can buy the technology and do the work themselves.

We can consult with them. They can outsource it to us and have it -- have us do it for them. Or they can receive some of the services inside, delivered via the Cloud. And we'll help them with managing that sort of hybrid environment. Given all the things I've just described to you, we also believe that HP is incredibly well position for what the next trend is that's happening from a computing architecture perspective.

If you look back over history, every phase of computing has had a combination of things happen around the servers, the storage and the networking. You can take it all the way back to batch computing. There's innovations happening inside each of those segments and each new trend, or each new, architecture, has to deliver much better functionality and value. But to take advantage of those new architectures, those new computing technologies, customers need help from a services perspective, which we of course can do much better now.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

They also need software to help them manage it. And you'll hear more about why we're very well positioned with that.

But most importantly, as you look at these sets of trends, they're each building on each other. HP, as you know, very strong in the phase of distributed computing, either in terms of our microprocessors, our operating systems, our [vax] position, our PA risks position, the beginning of our X86 position there, our storage offering. Then as we've moved through the virtual -- virtualized computing phase, now with our leadership position in terms of blades, our position with LeftHand, the acquisition we've just made, our Virtual Connect technologies and certainly our ProCurve Networking.

But this next phase is all going to be about converged infrastructure. And this is the place where HP is uniquely positioned to win. And it all has to do with the combination of those assets that we have.

Next, Dave is going to come up and be able to describe for you what we're doing and why we're so excited about what's happening with converged infrastructure, but before I turn the podium over to him, we have a little bit of legal work to do.

I have to share with you this disclaimer that's on the board. Many of you know that Dave has a few limitations and until January 2nd, he's not allowed to manage our storage business. And so everything that he's going to describe to you today is strictly about servers and networking, because that's all he manages today at HP, the storage reports to me and this is the intro for Dave. So now I'll turn it over to Dave, he's our Executive Vice President of the Server and Networking business.

---

**David Donatelli** - *Hewlett-Packard - EVP - Servers & Networking*

Thanks, Ann. It's always great to have your own legal disclosure to start your presentation. So when we go out and we talk to customers today, what we hear all the time is this. The sprawl of their IT infrastructure is really bringing their businesses to the breaking point.

So what do we mean by that? Well, if you think about it, if you're running a business, what do you want your IT dollars to go to? You want to go out and you want to have new applications running to help you make yourself more competitive in the business you're in, help yourself enter new businesses, help your business transform, right? It makes sense.

The challenges and the problem is this. It's because of the sprawl, you're not able to spend your money there. And in fact, if you look at most of the surveys that are available, what you'll find is most IT budgets, about 70% of them, are spent just keeping the lights on, running legacy applications. These applications and the infrastructure itself isn't very flexible, so they've had to stand up a bunch of redundant infrastructure so that it could serve the business of each individual department.

All that's led to a lot of dissatisfaction, and there's been a lot of technologies that have come out and you would think they were meant to solve this problem. Server virtualization, that's one of them. You've heard a lot about it over the last several years. But essentially, one of the newest industry buzz words you hear is virtual sprawl. So the same issue created, just a different technology doing it.

So what we see happening is that the world of technology is changing. It's a huge trend. And what the trend is this, is that instead of having individual stacks, like we've had for a long period of time, a storage stack, a server stack, a networking stack, these are all now going to be reunited. So what you'll start to see are products that come out, that integrate storage, networking, servers, management software, even power and cooling software.

When we talk power and cooling, it's not just for the product itself, but for the entire data center. We call this at HP the HP converged infrastructure. And we wholeheartedly believe this is the way the data centers of the future are going to get built.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

And if you look at it, this is not something we're going to talk about that's going to happen five years from now or ten years from now. It's actually already happening today. You just might not know it yet. So let me give you a couple of examples of that. First up is how your network is deployed.

So if you look, this is what I call the traditional sprawl way of doing it. You have servers. They're connected to a switch. It gives you access to the company LAN. And it's been happening this way for many, many years.

Well, let me show you how you can do it today with converged infrastructure. At HP we have a product called Virtual Connect. And very importantly this is designed from the ground-up, where from a design perspective, we designed network and server together so that it actually sits within a blade system chassis and what you could do here is get great advantage if you're one of these customers to solve the infrastructure sprawl problem.

So how is that? Well, because these things are integrated together, you can actually change your network on the fly. So you can make changes to your network without having to reboot your servers. And because you can do that, and because it's virtualized, you actually use less network ports.

So again, if you look at the chart here, in the all ways here we had two external switches, now in the way, just by example, we have Virtual Connect deployed, we only have a single external switch.

And then you can marry that up further with our ProCurve product line, for your last external source that you still have. And by deploying ProCurve, what do you do? Well, because it's got power and cooling savings and acquisition cost savings, you also reduce the cost of the network you're still going to run externally. So that's kind of a hardware example of converged infrastructure. Let's now look at a software one.

Earlier this year, you might have seen that we introduced something called blade systems matrix. What you want to think about this product is this is the software that runs the converged infrastructure. It's also the software that you can run your external Cloud on or your internal Cloud on, in terms of the way you manage it.

So what do I mean by that? Well, back to my problem before about infrastructure being inflexible and not being able to react to business, let's use this as an example of a way to fix it.

So you're running a marketing campaign. Your marketing department comes to you in IT and says, hey, for about a week or so we're going to get a lot of call volume. I'm going to need about a two-socket server, 60 network ports and about a half a terabyte of storage. Well, using the blade systems matrix, the software, literally one person sits at a console, carves out the infrastructure dynamically.

What's cool about it is that it works in virtualized environments and non-virtualized environments. And it's completely dynamic. So when your marketing campaign's done and now let's say it's the end of the month and you want to do your end-of-month processing, your accounting department comes to you and says, hey, give me four sockets; give me a terabyte of storage; give me 128 networking ports. No problem says a console, use the software, change it dynamically on the fly.

So again, these two elements of the converged infrastructure are already here today, they're unique HP IP that differentiates us in the marketplace. And we start talking about the future converged infrastructure and where it's going, I'll tell you, not everybody is positioned to make this transition and there's many reasons for that.

If you look at it, to make a converged infrastructure, you have to have the intellectual property and the design capability to design this from the ground up. You just can't partner with a bunch of people, throw a bunch of stuff together and think you have it. And this is where HPs unique. We're the only company out in the marketplace that has the capability to design our own networks, our own servers and our own storage, nobody else.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

We've been in the server business, as you know, for over 20 years in the industry standard business. We've been number one in that market for 52 quarters. In the networking business, believe it or not, we've been in it for over 30 years. We're the number two player in networking, and in storage, we've been in it a decade as well.

Power and cooling, we've been writing that software for over 12 years. The point is this, we have all the IT and engineers who can actually design this from the ground up and you need that capability to make a converged infrastructure. And you also need a services arm to put it together. And you heard we have that. So we can deliver it on a customer site, via outsourcing, via a Cloud, any way they happen to want it.

So that's a little bit about the technology. Let's talk a little bit about how this is going to change the market dynamics and what the marketplace looks like.

So if you look on the left side of the chart there, what you'll see is kind of the three markets where convergence is really going to take place, networking, storage and servers. And as you can see, that gives you kind of the overall revenue size, servers and networking fairly similar in size, between \$57 billion and \$60 billion, storage around \$31 billion.

As you can see, what industry analysts are saying there in the middle, this convergence is going to start to take a piece of each of these markets and put it together. And then on the right side, most importantly, are what do kind of the business profiles look like here? What are the margin profiles? And what you see is that networking has, by far, the highest margins, followed by storage and then followed by servers. So what does this mean for us at HP?

Well, as I just mentioned, in the server business, we're quite comfortable there. In the sense of, we're number one in that marketplace, we know how to compete with the entrenched competitors, and there's many entrenched competitors in that marketplace, and we know how, importantly, to make money at it. So we're very confident in our position in servers and what we're going to do there.

Let's look at the networking segment. Well, if you look there, what customers are telling is that they're looking for alternatives. They want to have a competitive networking marketplace.

And there, as I mentioned, we're not newcomers to networking. We've been at it a long time. And if you look at our Virtual Connect product and our ProCurve product, we're at over \$1 billion run rate in that marketplace already. So we have a lot of established footprint, we have a lot of established credibility. For us, having more networking products and moving deeper into networking, great business, it increases our overall margin profile, we like that.

For other folks in the marketplace, I think it's going to be a little bit more challenging. Either you're not going to have the IT to build the product in the first place or you're going to have to learn to compete in the server market, which has much lower margins, already has entrenched competition. And third, you need to have the scaled supply chain to make it all happen.

So that's why we're so confident about our position. We're confident that customers want this direction in the marketplace because it saves them money and makes their job easier and it's the right place for us to go.

So let's talk about the supply chain and how that impacts converged infrastructure. If you look at R&D itself, an R&D is not an R&D dollar, meaning they're all not the same. It's just like what we heard before about trying to do 70/30. We want to spend the maximum amount of our R&D dollars on new incremental development that delights our customers, gives us a competitive advantage and gives us a chance to make more margins. And that's what our system's set up to do.

So if you look on the bottom here, standard components. You heard Tony say HP is the large buyer of these in the world and in our business, in the EFM business, we want to use these across the board in as many places as we can.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

From there, we have HP common building blocks. Now here, there's a lot of IP. But there's also a lot of money savings if you do it right. From an IP perspective, we dominate the blade market. We do very, very well there from a market share perspective. So we took that blade system that we originally developed for industry standard servers and we moved that into our integrity line, which is our Unix line, and our non-stop line.

Before, those lines would develop their own hardware and since they were smaller business, they wouldn't have much scale in terms of being able to buy those parts. So if you think about it, we design it once now, with a blade, that has great IT and then we use it horizontally. So by doing that, by using it horizontally, we get the benefit of supply chain scale, while at the same time, we don't waste R&D dollars doing redundant development of low volume products.

So that enables us to take as much R&D money as we can and put it into unique features that, again, differentiate ourselves and offers margin opportunities to make our customers happier, so we've made a lot of progress here, but there's still always more to do.

So what these kinds of charts show you is how we're looking at it. We look at how we're doing in terms of buying those industry standard components, again, with the leverage of HP across the top. And again, great progress, more to do. And then the second piece, at the bottom here, is where we start to talk about economies of innovation. And this is, again, getting rid of redundant programs within the company, so that we're focused only on unique developments.

So in the bottom, we've made tremendous progress, going from about zero to, we think it's about, 55% progress there in terms of going to leverage. And you'll see, going forward, to 2010, we expect a lot of gains there as well.

So a great story, but more to do, and what's even more interesting, though, is this helps us across the entire life cycle of a product. So if you look at it, as I just mentioned, by using the leverage I showed you in the last couple of pages, it certainly helps us in design and makes us more efficient. It makes the supply chain even more efficient in the factories because we're building less unique components, so that's less people to train on different things. They can just build to scale. It gives us more flexibility as supply or demand changes across different environments. And it allows us to reduce our inventory.

In the field, when we go to implement these products, it allows us to deploy them faster because they all look the same, so again, less training, less complexity. Because of that fact, it gives us a much higher success rate and it gives us better reliability, which also saves us money.

Then finally, over the years, once these are installed, we start to support them. And since they're the same parts, same components used everywhere, we train people once, we stock once and we have the ability, since they're the same, to automate our recovery procedures. So again, not only helps us at the up-front part of the process, but through the entire life cycle.

So if you look at it in summary, the trends in the industry are moving our way. No one is better positioned than we are at converged infrastructure, again, the only company that can do networking, servers and storage under one roof.

In our supply chain, it's the underpinning that helps our economics to be more and more successful in this market. So we're very optimistic about the future and now what I want to do is turn it over to Tom Hogan and he's going to talk about HP Software. So, Tom?

---

**Tom Hogan** - Hewlett-Packard - EVP - HP Software & Solutions

Thanks. I get jealous whenever I see those PSG ads and I try to figure out, how can I get Fergie to promo IT management software? And I haven't quite figured that out yet.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

My goal in the next 15 minutes or is to -- I want to do a level set for everybody on the Software business more from a financial perspective. Then I'll talk about the specific segments we serve and the addressable market and the growth that's tied to those segments. Talk about some macro and mega trends within IT management that I think play to our strength and enable us to continue this growth trajectory. And then finally talk about some new routes to market that I think are also exciting as it relates to growth.

So let me start with a level set on the Software business. It's been through a lot of changes, as most of you know, over the past four years. And I'm going to ask you to start on the upper right-hand quadrant and talk about the mix of the business.

So we publicly report our BTO segment, or the IT management stuff and other. BTO is kind of the gorilla of the portfolio, represents roughly two-thirds of our revenue. And I'll talk some more about what's in other in just a minute, but for the purposes of this slide, what I want you to note is the other elements are a hybrid of software, the heavy dose of services, these are services-led solutions and also all include elements of hardware. So a different margin profile than what you'd expect from a pure software business.

Now, if you drop down to the right, if you look at the mix of license and product and support to services, you can see roughly a two-thirds, one-third mix with services at 32%. What's noteworthy there is that number has jumped from '08 to '09 from the high single-digits to 32%. So if you say, well, why and how? The how is we consolidated a lot of consulting and integration expertise within HP, brought them over to our unit.

And the next question, why do that? Well, the answer is pretty simple. We try to be as market driven, customer centric as we can. And what we heard from our customers over the past couple years is we love the software, we love the vision, we like the products. What we want is help getting those assets quickly deployed to accelerate time to benefit. So by aligning the services more closely with the IP and the products we're able to better serve the market.

Now that also has an impact on the financial profile because as most of you know, the margin characteristics of a Services business are different than what you see in a pure software play. So now if you transition back to the left and look at the financial results over the past several years -- and before I set that, take you back through the numbers a little bit, when we started this journey in early 2006, I sat down with Ann and Mark and said what's the goal; what are we trying to accomplish here?

And the answer was pretty clear. One is, we want to scale this business. Two is, we want to scale it in a way that creates a halo effect and more synergy for the rest of the HP value proposition. And third is we want to operate a world class software business and drive it at industry standard margins. So what you can see here is a graph of our operating margin and dollars over that timeline.

The good news is we've scaled this thing roughly \$3 billion from '05 to '08. In the spirit of full disclosure, that was not all organic growth. It was healthy mix of very strategy M&A, which was roughly \$1 billion of run-rate revenue of the consolidation I referenced in the Services business was roughly \$1 billion and then the organic growth of the portfolio was just under \$1 billion, so some good growth and scale and relevance both within HP and across the industry.

Now in the profit side you can see we've gone from minus 4.5% to the year-to-date '09 number of 17 points. The thing that I want to make sure I highlight is the one thing we did not compromise in that profit journey was our commitment to, in our investments in research and development, to make sure that HP continues to innovate and lead in this market. So good progress from a financial perspective and I think a lot of opportunity for continued growth in both revenue and our margins.

So I'm going to switch gears now and talk about the opportunity and move pretty quickly. You can see marketing; Ann already referenced the addressable market, its \$90 billion. You can see the split between the IT management space, which is \$15 billion, and the other, which is \$75 billion. I also have an outline of some of the CAGRs that we see in each of these segments, but let me give you a quick rundown at a high level of what it is we do.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

Start with the IT management space, which is our BTO or business technology optimization portfolio. The way to think about that is this is a portfolio of software that helps the CIO run IT like a business. Or said differently, ERP for IT, helps with strategic planning and alignment through testing for performance, quality and security and finally assets to help them run and operate their environment.

Dave already talked about the Sprawl and the complexity and these assets help manage all that. The point I want to emphasize is the point Mark made earlier, which is aside from the normal growth, and I'll talk a little bit more about some of the mega trends, we think there is a big opportunity for HP to act as the consolidator in this space.

So as organizations look for ways to save money across their IT spend, one of the first places they look is do I have a plethora of tools from multiple vendors that I can consolidate, leverage and drive efficiency with. And I think as they do that, the breadth and strength of our portfolio and the HP brand will play to our favor and create a great opportunity.

Drop down into other now and there's really four segments. One is Info Management, so just think that software assets that help you manage for the cost efficiency and risk mitigation of all the information you're capturing. It's assets like backup and recovery, email and database archival, documents and records management and so on.

The next one is now I've captured all this information, how do I get more, how do I extract more value and insight from all that, the doubling of digitized content every 18 months? And there the big trend is to make that data more operational and to apply more advanced algorithms and analytics against that data to drive better business outcomes. And our assets there are the combination of what we think is the next generation data warehouse called Neoview and then all the intellectual capability we acquired from a consulting perspective from our Knightsbridge acquisition two years ago.

The assets in the communications and media space really play to HP's heritage, capability and strength in both the old proprietary network world and the IP based IT management space that we've established a leadership position in and helping the NAPs and the NSPs as those two technologies converge to drive efficiency, better agility and help transform the customer experience. And the last is just a bunch of people to help customers that lack the expertise accelerate time to value across the portfolio.

So I want to talk about four key trends going back to the IT management space. And I'll go quickly and we'll go clockwise. You start with automation, so roughly one-third of an IT budget is typically allocated to people.

The bad news for Dave is Moore's Law is alive and well and the cost per TPC, MIP or terabyte continues to go down. But unfortunately, labor continues to go up. Everybody wants to make more money next year than they made last year, so any opportunities to mitigate or reduce labor through automation is a big lever for CIOs.

And what we've done there through a series of acquisitions that date back a few years with [Radia] and FIQ but most notably the acquisition of Opsware, HP has now assembled the most robust portfolio for automating, provisioning and change across servers, across the network, across storage and across the desktop. And you can see some of the, each of you will have sample data point of what is the ROI or benefit for people and how compelling or real is it.

You can see here that based on studies in used cases that customers that deploy the broad automation suite can reduce the manual labor efforts by up to 90%. And by the way, one of the side benefits isn't just the labor reduction it's that people tend to make mistakes. And the more you can automate with software, you see also a pretty big jump in quality and service levels.

Drop down to App Modernization; we're on the brink of a big wave of app upgrades and modernizations. So the Y2K apps are ready for retirement, you have the advent of things like SOA, composite apps, Web 2.0, mash ups and et cetera. So we think we're on the brink of a major wave in app modernization.

And here's where the Mercury acquisition, I think, plays to the market and the customers' needs for improvements in testing for quality performance and security. And you can see the benefits there; the cost of testing down 50% with that portfolio



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

deployed. And importantly, the speed at which you can get those applications delivered in the lines of business and deployed improved by 30%.

Financial Management, one of the things that CIOs are under pressure for right now is, A), I've got more demand than I have resource to go deliver, so I need help with optimizing and prioritizing what I go do. And two is I'm getting a lot of pressure from my line of business guys on how come my service or this service you provide costs X and I read about or I heard about this Cloud based this or SaaS based that that costs Y. So more transparency into the cost of services, tool for planning and driving better alignment is a big deal, and here too we think we've delivered a market leading solution for IT financial management and portfolio planning.

The last piece is virtualization, which we all know is a big deal. We all know why, it's because everybody's trying to get more utilization and value out of the infrastructure they've invested in. Well, it's the same problem with the labor discussion we had earlier, as you do that and you need to protect service levels and understand what's happening in a highly virtualized world, there is a risk that the labor associated with managing virtualized worlds starts to outpace the savings and the infrastructure.

So HP has been on the front end of leading that virtualization-management capability. It started with very robust partnerships with VMware, Microsoft and Citrix and now it's extended up to the next layer to help drive efficiencies. And you see some examples here, this one happens to be based on the number of servers that any one admin can manage in a virtualized world, so some big trends where we think we're positioned well from a growth perspective and addressing needs of the customer and the marketplace.

The last piece is just some important levers for us. The big theme that I think has been pretty clear is growth, so aside from growing faster than the market and core markets we serve, we're pretty excited about a few very important, I think, material levers for us to drive growth with the portfolio in 2010.

First is just better synergy and leverage across all the lines of business. I won't go through all of them in the interest of time, but an example is with Todd's group in PSG, leveraging that client automation software in the PSG channel. And you can see some of the areas highlighted here. But we're very excited about the opportunity, not just to drive growth but to enhance the value proposition of both our software and HP offerings across the Enterprise business portfolio.

On the right side, when we started this journey three years ago we made a very conscious decision to go focus on the top 1,000 accounts. Our view was the testing market on the back end of Mercury and automation on the back end of ops where it was very under-penetrated and just getting laser focused on those accounts would provide a good source of growth for us over the foreseeable future.

So now you fast forward three years with the maturity and scale of the portfolio and the organization, we're now ready to go tackle that next segment, so the next 1,000 customers and the high end of the SMB market. And we're pretty excited about it. So if you look at the market share for us in the top 1,000, we think we've established a market, position as a market leader. You can see the share statistic in that next segment, so we're coming out with a whole set of offerings, both go to market, coverage strategies, dedicated head count, pricing, packaging, more SaaS based stuff to go after that next market segment and try to drive that share to where we sit with the Global 1,000.

And then the last channel that I'm most excited about, and I have been a huge advocate and fan of the EDS acquisition since the day it was contemplated and announced. And the reason is pretty clear, and it's simple, I mean, there's three reasons why this is a big deal I think for HP and for the software organization.

Number one is, we have the opportunity now to deploy this whole suite in the EDS infrastructure and help them drive a world-class cost structure and also world class service levels which will help them win more business. And bidirectionally, they have the opportunity, or I get the opportunity to collect feedback from one of the largest, most complex service organizations in the world on my software to make sure that I'm a step ahead of the competition.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

Two is, they're a huge channel for us and its both net new opportunity as we get after the rest of the market. But it's also going back into the install base of EDS customers where there's a pretty rich mix of third party software that we have an opportunity to replace. So it's both an install base opportunity and future growth.

And the last is, as customers look to procure services more and more in the future in alternative channels other than dedicated on-premise models and classic perpetual software and want to consume services in an outsource off-premise either dedicated or shared model, we now have a world class operation with our Enterprise Services business to provide that delivery channel.

So I guess in summary we've been on a pretty aggressive journey over the past three or four years. We're pleased with the progress but we're equally excited about the future and the opportunity to maintain that trajectory. So with that, I will turn it over to Ann Livermore. Ann?

---

**Ann Livermore** - *Hewlett-Packard - EVP - HP Enterprise Business*

Thanks, Tom. We'll wrap up this section with a few quick comments about our Services businesses. First of all, if you look at the Services business, it's a market that is very fragmented. If you take all five of the top players in this market, we have less than 20% share. So with HP sitting at number two, five of us, less than 20% share it tells you that we have a number of small people to compete with as well as a few large competitors.

We structured this business into two components from a management perspective, our Technology Services business, which I'll make a few comments about, and then our Enterprise Services business, which is the rebranding of our EDS activities.

Our Services business is important to us because of the pure revenue and operating profit opportunity we have inside the business. But on top of that it has a tremendous impact on the relationship we have with our customers and our ability to sell the rest of our portfolio. Let me give you just a few examples associated with this, if you look at HPs top 200 customers, those customers where we have an outsourcing relationship with them, a significant services relationship, our share of wallet is 21% across those top 200. Where we don't, it's 7.5%.

With some of the customers where we have an outsourcing relationship we have a share of wallet of their spending of over 60%. And in many cases we have almost their entire technology footprint, so as you can see, there's a tremendous opportunity for us with our entire portfolio because of our breadth now and presence with our Services business.

Let me give you an update on the progress we've made with the integration of our Enterprise Services business. First, I'll give you a few operational comments and these are statistics as of the end of our third quarter.

At that point we were two-thirds done with the workforce reductions that we had underway. And you saw Cathie show earlier the cost impact there and our future projections as well. We completed two out of the three waves of the onboarding onto our systems of employees from all over the world, good progress on our IT applications, a lot of work done on the cost structure, but as you saw from Cathie, still a lot of opportunity for us to do more.

What about from a customer perspective during this period? If we look from a customer perspective, what happened was that we were able to maintain 200 of our largest customers. Of our 200 largest customers we maintained all but one. And the one that we didn't maintain is a major HP competitor, who during the planning phases we assumed we would not maintain.

We were also able during that period to have service delivery excellence metrics improve year-over-year. We have very detailed metrics around our service delivery quality, so this was something we watched very closely. So from a customer perspective and a delivery perspective, we did a great job.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

On top of that, as Tom mentioned, we have a huge opportunity further with the deployment from a quality and also cost perspective of the tool sets that we have. So imagine being able to automate all the data centers that we have, being able to take the 40 million calls that we get into the service desks each year, the 4 million desktops that we manage, the 1 million ERP users that we're supporting and apply this technology, so huge opportunity there both for quality, due to automation and also cost reduction due to automation.

There were some questions about our pipeline and our growth here. As we look at the progress we've made since August of last year, some really good statistics here, 32 new deals that were \$100 million or above in terms of the total contract value, some very important ones, Aviva, one of the largest deals signed in the industry this year and one of the largest insurance companies in the world, American Airlines, as Mark mentioned, AmEx. And today we're announcing a new win with a company called Vale, it's one of the largest mining companies in the world located in Brazil.

This is a very large deal for HP and not only is this a big services deal but along with our consolidation of their 43 data centers to three, they're going to be implementing HP Glades, HP Storage, HP Networking, HP management software, HP printers, HP laptops, HP desktops and HP mobile devices, all as part of their new technology transformation process, so just a super opportunity for HP.

While you hear us talk about all the big deals, and they get a lot of publicity, we also love the small deals. We signed over 15,000 transactions this year. And the small deals are ones that typically carry less risk and also have better margin opportunities.

If you look at the products that are included in our pipeline, so things that are being solutioned now and being offered to customers in proposals, we've gone from \$2 billion at the start of the acquisition back at the end of -- the start of the integration back at the end of August, now to \$6 billion, so a \$4 billion increase. So while we still have a lot more work to do, we're very pleased with that progress.

I'm going to close with a short set of comments about our technology services business, which is really one of the critical businesses for HP that we've not shared much with you about. Inside this business we provide the support, both during warranty and after warranty, for all HP products. In addition to that, we provide support for customers' overall environments, so technologies and products that come from almost everyone in the IT industry.

As part of this Support business we manage 28 million incidents a year and we do that delivery either over the web, via call centers, with on-site support and sometimes opportunities to even make sure we prevent problems before they've ever occurred. So when you think about the opportunity associated with that, it's just huge.

Anything we can do to further automate that when an incident does happen, instead of having to send a tech onsite, being able to do it over the call center or, better yet, through chat, over the web or machine-to-machine, tremendous opportunities for HP to further use automation. Even better is when Dave can build into the products the capability so that the incidents never happen.

And so that's why we're so excited about our ongoing opportunities inside this business. We also have the ability to further improve our parts managements for spare parts and our labor optimization in terms of the cost and productivity of our labor force, on top of that, we don't sell enough of it yet.

If you look roughly across HPs products, we only sell support with about 30% of them, now part of that is due to our channel partners who we support and encourage them to sell support. But there are a lot of other opportunities where other unauthorized people are doing support delivery where it would be better done by HP ourselves. So you'll see us focus on selling more support associated with our products here and also at the same time, reducing incidences, which gives us a great opportunity to further improve this business.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

So to close and wrap up this session overall, we feel like there's a very big, attractive market. And the market is moving our way. Customers are asking and wanting us to do more, which is a great situation to be in. Our portfolio's in the best position that it's ever been in. And we still know that we have a lot more work to do to reduce costs so we can invest it more in sales coverage, more in innovation and also more to our operating profit growth.

So at this point we're going to stop and take a few questions. So Todd is going to come join me on stage but we also are glad to have any questions pointed to Dave or to Tom or to Tony as well and they'll be glad to jump in for the Q&A.

---

## QUESTIONS AND ANSWERS

**Todd Bradley** - *Hewlett-Packard - EVP - Personal Systems Group*

Great. Here. Jim, are you going to pick people?

---

**Ann Livermore** - *Hewlett-Packard - EVP - HP Enterprise Business*

Yes.

---

**Jim Burns** - *Hewlett-Packard - VP - IR*

Right. We're start right here.

---

**Todd Bradley** - *Hewlett-Packard - EVP - Personal Systems Group*

Sorry.

---

**Shannon Cross** - *Cross Research - Analyst*

Hi, Shannon Cross, Cross Research. I've got a question for Todd. How should we think about sort of pricing and ASPs and PCs? You've got the pressure from Netbooks and CULV. And sort of on a long-term basis, how do you sort of think about the margins there? Clearly, there are opportunities in supply chain and things you can optimize. But where do you sort of see this business going over the next few years?

---

**Todd Bradley** - *Hewlett-Packard - EVP - Personal Systems Group*

Well, first, I think Netbooks has really become kind of an entry level price point as opposed to a category. So I think you see us executing really the Netbook products with margins that are compatible to the rest of our business line. You'll see us continue to execute those efficiencies that we've talked about, that Tony will talk about. And this is an industry that's been made up of 20 years of continual ASP decline. So we're comfortable with what Cathie and Mark talked about in Q3 and the guidance she's given today.

---

**Shannon Cross** - *Cross Research - Analyst*

Longer term, just curious where you think pricing goes sort of longer term. And is this just like a downward slope? Is there any benefit coming from sort of the corporate or enterprise refresh that they're expecting next year?

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Todd Bradley** - Hewlett-Packard - EVP - Personal Systems Group

I think clearly the product -- I think the couple of benefits that will change in the industry, the connectivity that we've talked about, the expansion of our channels to include carriers clearly represent opportunity. The higher end, the breadth of our product line represents opportunities for us to sell across the line as opposed to some of our competitors that are either geographically constrained or product segment constrained. So I think you'll continue to see aggressive pricing at the low end of the line and great value across the line.

**Unidentified Audience Member**

Thank you. (inaudible) Advisors. Ann, could you talk about if you have any desires or a need to get into more business consulting sort of like IBM and Accenture do? And maybe the follow-up question, EDS had a decent sized business process outsourcing business. Where is that today? Maybe is that something you look to expand and grow significantly? Thank you.

**Ann Livermore** - Hewlett-Packard - EVP - HP Enterprise Business

Yes. If we look today at the portfolio that we've got inside our Services business and where customers are having problems, we think it's very well aligned.

And if you think about an IT budget and how much money is spent around services to plan, design and operate, most of the spend from an IT perspective is around operations. So we feel great about the portfolio we have. We don't think that we need to make any major additions to it other than what we can do organically just in terms of the strength of the portfolio we have.

Our BPO business, as you've heard us talk about in the past, is about a \$3 billion business. And we like it as part of our portfolio and are pleased with the assets we have in it but right now we're more focused just on going out and winning as many deals as we can. We feel like we've got a cost structure to compete, win and also deliver good margins and so our total focus is on going out in the market and winning.

**Toni Sacconaghi** - Sanford Bernstein - Analyst

Toni Sacconaghi from Sanford Bernstein. I have one for Todd and one for you, Ann, or maybe Dave. For Ann or Dave, if we think about your portfolio composition and enterprise, by your own admission, the two segments that are secularly most attractive, those with the highest growth rates and the highest margins are networking and, no, networking and software. Excuse me.

**Ann Livermore** - Hewlett-Packard - EVP - HP Enterprise Business

Yes.

**Toni Sacconaghi** - Sanford Bernstein - Analyst

You have the least share. You're fundamentally under represented. So if you think about the implications of that going forward, you are going to have sub industry margins and sub industry growth rates unless you gain share or you need to gain substantial share and have substantial margin expansion to actually be at parity with the market. So what's the implication of that in terms of your thinking about your broader enterprise portfolio composition about whether you need to step up non-organic growth to try and round out that capability? And I'll hold off and ask Todd mine after.

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Ann Livermore** - *Hewlett-Packard - EVP - HP Enterprise Business*

Yes. So if we look at networking and software, they're both areas of the portfolio we're investing in and also in some cases we're partnering in. And as you know, our philosophy has always been we lay out a strategy and any time we think about M&A activities we look at it and say is this something that strategically fits? Does it operationally fit? Does it have a good financial return?

And we look at all three of those options, the partnering, the organic R&D activities and M&A as options for us. But, Tony, when I look at it in networking, we gained 1.1 points of share last quarter. So that was good.

Customers love the portfolio we have. And we believe we can do some disruptive moves to the networking market with the things we have like Virtual Connect and our ProCurve activities. You've seen us announce our partnering strategy. So we've got a number of the big networking partners such that when we need to have a fuller portfolio we can team with them to offer those products.

So as we look at it we like the options we have. We like the hand we have. If you look at the software market, we have consistently said that that's a market that we grow, again, by M&A, by R&D and by partnering. And so it's always been part of our strategy.

We look at the information management market. It's a big, fragmented market with no clear leaders if you look at the analytics and the BI and the whole data warehousing activities. So it's not like we feel like we have to run out and immediately do something to be able to deliver the kind of numbers that you saw today.

---

**Toni Sacconaghi** - *Sanford Bernstein - Analyst*

Thank you. Todd, if I could follow up, just in terms of the stated market growth rate of 5% to 6% in PCs, what underpins that revenue growth assumption going forward? This past quarter PC ASPs were down 19%. I think historically, if you look at PC ASPs over the last decade, probably down about 9%, so that would imply 14% or 15% unit growth. If we went back to historical ASPs I'd say most investors if they took the over, under would say they'll probably do worse going forward. So maybe you can help us just understand what underpins the 5% to 6%.

---

**Todd Bradley** - *Hewlett-Packard - EVP - Personal Systems Group*

Sure. Look, I think there are a number of drivers of growth as we go into next year. First, clearly, the refresh cycle that Windows 7 will drive, as well as the age of the install base in the enterprise, I think are both big drivers; I think the investments we've made in our call center and SMB coverage will be a big driver both to units as well as profitability.

And I think, thirdly, our geographic coverage, the investments we've made are all poised to begin to execute. Our China business grew at very good rates in Q3 as Mark addressed on the conference call and we see that as a continued opportunity to both grow in new markets and take share.

---

**Ben Reitzes** - *Barclays Capital - Analyst*

Hi. It's Ben Reitzes at Barclays Capital. I wanted to ask about the upgrade cycles. You're talking about the PCs and I guess everybody's calling for that. There has to be a massive upgrade cycle apparently. But what about servers? Is there anything going on in servers, networking and storage you're excited about, anything more about the fundamentals you can show us and talk about?

And in particular, Nehalem or anything that you feel you have just a little more on the upgrade cycle dynamics, the age of the install base and servers and pinpointing that a little bit more in terms of where it translates into your long-term growth. That would be helpful. Thanks.

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Ann Livermore** - Hewlett-Packard - EVP - HP Enterprise Business

Yes, well, we certainly have an opinion there. Did you want to comment, Dave, on the server opportunity?

**David Donatelli** - Hewlett-Packard - EVP - Servers & Networking

Sure. If you look at servers, we think we have a great opportunity with our G6 cycles that's going on right now, that's Nehalem based. If you listen to Intel, they'll tell you that we've been out in front with that technology. It offers a payback of, versus our G4, about 90 days, versus our G5 series, just 12 months, so very, very quick ROI.

From upgrade cycle perspective we think that due to the economy people pushed out approximately -- it's not exact science, but we think they pushed out about six months. Then as you heard Mark say earlier on today, we'll see when they come back. We just feel when they do come back we're really well positioned based on where our technology is to take advantage of that.

**Unidentified Audience Member**

Ann or Dave, as it relates to networking, it seems like there's been a lot of energy placed behind ProCurve. There's certainly growth and share gain there. How important to success in ProCurve versus success in the matrix platform, does matrix become a core data center switch of ProCurve or do you need to invest further in the ProCurve?

**Ann Livermore** - Hewlett-Packard - EVP - HP Enterprise Business

Yes. I'll let Dave keep going because this is core to his --.

**David Donatelli** - Hewlett-Packard - EVP - Servers & Networking

Yes, I think virtual connect is really under appreciated. And that's kind of what we were showing before that we're really changing the way networking is going to be done and is being done. So we're already a nice revenue run rate there. Again, it's a different way of doing it than what people have been used to already, but we've seen very, very broad customer adoption.

At the same time, that doesn't mean that external networking is obviously not going to go away. And that's where ProCurve has been, is going to continue to be very, very important to us. One of the big things that's going to happen with ProCurve was really the move of putting it into our main ESN division. So before it had been off to the side and now by moving it to the division, not only do we get product synergy but we get sales force synergy. So you'll see us showing up in more accounts than we otherwise would have just by the fact we'll have more people on the street who can sell it.

**Ann Livermore** - Hewlett-Packard - EVP - HP Enterprise Business

Yes, and this is a really big point because when you think about this converged infrastructure, HP's server position becomes very, very important. And the fact that Dave's ProLiant business now is sitting at 36.5% market share, have had a five point gain since 2005 -- just last quarter we gained another point and a half of share in our server position, is one that every networking company in the world would love to be able to team with and in terms of the growth opportunity.

**Jim Burns** - Hewlett-Packard - VP - IR

We'll take maybe one more question from the room if anyone has one.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**David Wong** - Wells Fargo Securities, LLC - Analyst

David Wong, Wells Fargo. On the PCs can you give us some idea of your attitude to moving into the new PC segments in the future? I mean, for instance, in Netbox and in QLV, I think HP were amongst the first to have a product in the new segment but then many of your competitors broadened their product range and their market shares much more rapidly than you. Is this a pattern we'd expect to see going forward or was there something special in these two cases?

**Todd Bradley** - Hewlett-Packard - EVP - Personal Systems Group

Well, I think you've seen lots of our competitors follow us generally, be it from how we develop products or how we distribute our channel strategies. So we tend to focus our development dollars on large categories, things like slates, like connectivity, innovation that really matters to customers. So we're not always the first, but we're usually the best and biggest.

**Jim Burns** - Hewlett-Packard - VP - IR

Great, well, thank you all for your questions here. We're going to take another brief break. We'll come back. It's 4:12 right now. We'll start back at 4:25 to go through IPG. Thank you, everybody.

(BREAK)

## PRESENTATION

### Unidentified Corporate Representative

Ladies and gentlemen, please welcome Executive Vice President, Imaging and Printing Group, Vyomesh Joshi.

**Vyomesh Joshi** - Hewlett-Packard - EVP - Imaging & Printing Group

Good afternoon, everybody. What I want to do today is with my team talk about the opportunity that we have in imaging and printing. So for the last four years we were on this journey in transforming digital printing from printers to printing to pages.

Let me make sure that I connect some dots for you because this is very important for you. The most important part right now is making sure, as Mark mentioned, gaining share in our core business. We had a lot of work with supply chain in last few years, They took tremendous costs out so that we can reinvest in gaining share in the core business.

Now the other important part for moving from printer to pages is capturing some new (inaudible) stream, as Mark talked about. It's very important for us to go and invest and get share in retail photo publishing. It's very important for us to gain share in managed print services, it's very important for us to capture pages and graphics.

These customers are going to be with us for seven plus years and we will have that connect driven suppliers which is going to be very vital for profitable growth. So when we look at our business, we think about develop business model, as Cathie mentioned, is very resilient. We have the intellectual property with which we will be able to continue gaining share in our four broad imaging and printing portfolio.

When we think about printing, printing is actually growing. The pages that we think about, 200 billion pages are added every year. And the main reason for that is the content explosion. When you think about content, its growing 10 X. The printable content is growing three X and what we want to do is we want to capture every page which goes digital.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

We have this resilient business model, the intellectual property and our install base. For the last 25 years we are the leaders, that install base is a sustainable competitive advantage for Hewlett-Packard.

We also feel that the broad portfolio we got, we are the only company where the customers are saying and coming towards HP. This whole business where the customers are saying save costs for us, improve the productivity, we can actually deliver that value proposition better than anybody else in the industry.

The other important part about the cost structure is when we look at our supply chain we have to do a lot of worked; Tony talked about it. It's about really having fewer contract manufacturers, fewer nodes of distribution, making sure with the scale that we've got we save tremendous amount of cost. We also did a lot of work in cash flow point of view, the asset management because we believe that the channel inventory and the whole inventory we've got we need to reduce it significantly and manage it in a very, very different way.

When we think about this \$268 billion opportunity, which is going to grow 2% to 3%, we think that we are set, because of the cost structure and the investment that we are making, to grow our business profitably. Let's talk about opportunity.

When we look at the pages, the printable content explosion that I talked about, there are going to be 7 trillion pages by 2012 which is digital, adding 200 billion pages every year. The other important part is the focus on pages.

The chart where we are talking about the units, there are 126 million units, 95% of the units only generate 40% of the pages. The 5% of the units generate 60% of the pages. Let me give you a very specific example.

The Web Press, using the most scalable printing technology is worth 150,000 consumer inkjet units. I mean, just (inaudible) of one Web Press, you have placed 150,000 consumer inkjet. That is the power of really paying attention to where the page growth is going to come from and not chase very low end of the printer units; this is very important distinction.

The other important part is our intellectual property. We have 10,000 patents. The business model that we really developed for last really five years has built our Transactional business also applies to our Indigo business, to our Web Press business, to our Signage business, now, clearly what Mark and Cathie talked about, we need to invest.

We want to go gain share in these retail publishing, this MPS business, get those contracts to that we can capture that. That investment is very important to us. But then we will enjoy the (inaudible) stream for a very long time. That's the key thing that I want to make sure that I really communicate.

What we are also doing, we are working with industry analysts and making sure that they start measuring our business in terms of page market share and not unit market share. You will see in for trends and other companies who are going to track that that is going to be useful for both of this because this is very important shift that we want to make how you measure the success of the business in terms of the page growth.

We also feel that we want to really go after all the four key segments. We want to make sure that we look at our consumer business, our Small and Medium business, our Enterprise business and the Graphics business. With key four trends, the first one, analog to digital transition, that's happening in all of the four key segments.

Second one is, the printable content explosion. And what we are doing is we used to have a very simple PC centric transaction model, every PC you sell, a printer is connected and that's how we were really getting the (inaudible) of supplies. What we want to do is we want to print everywhere anytime.

We want to have customer have a choice. They can print in the home, in the retail or they can use the print service provider and use online, same thing with Small and Medium business, same thing with enterprise customer. So we are building these



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

ecosystems having long customer connection to have their (inaudible) stream which is going to be very, very important for us to drive the profitable growth.

Now when you think about each segment, consumer is \$27 billion, this includes the core business in the retail form of \$9 billion. We have \$90 billion in Small and Medium business. We have \$121 billion enterprise market and your \$30 billion graphics market, and all these businesses we absolutely believe have the broadest portfolio and intellectual property to build this model to drive the growth.

So that transfers into our strategy which we have been on for the last four years. Number one, innovate in core businesses as for example, we introduced the first web connected consumer printer. That means you connect directly to the web, you don't need a PC. You have open APIs, consumers to right applications, these are all Cloud services that consumers can try and you are going to have a very different ease of use. Applications like coupons.com will be now available directly over the printer; that is what I mean by innovating and redefining our core business.

In Small and Medium businesses having market splash, having new ways where we can touch our Small and Medium businesses segment it is in their offices, in their retail or online if you want to capture all the pages. You want to think about enterprise where we have clearly now taken our 25-year relationship with Cannon, take it to the next level. We are offering now the copier platforms in our enterprise segment because we believe the customers are asking this. We one-stop place where we can go and have imaging and printing capability so that we can reduce the cost, improve the productivity and get the environmental carbon footprint down by 30%, 35%, we need to continue to innovate in the core.

Second one, build with new and (inaudible) streams with our retail publishing, managed print services and graphics because we have a unique advantage. Now, clearly, now key to our point, yes, these businesses right now are 15%, but our opportunity to grow them is huge. Investment that we need to do from coverage point of view so we can go after with the MPS opportunity, with EDS is very big opportunity for us.

We can make sure that we can invest, get those customers, change their hardware to HP, farm those customers, build a core capability to go after not only optimizing their infrastructure management environment but improving their workflow, get other paper based processes, streamline them.

We believe that this analog to digital transformation is very important. When you think about Web Press you're talking about gallons of ink, mass cc's of ink. That's how you think about and we really believe there is unique opportunity to go after that.

And then some new things like the Cloud services, 75% of all the Smart phones will be connected to HP. These are the new opportunities that we want to do, continue to drive operation excellence, take that cost out, reinvest into core business, reinvest into these new opportunities that we have. We are number one brand; we have a unit market share; we want to have page market share.

We have to grow our coverage; we need to make sure that we continue to get our install base and our supplies because all these things are going to drive supplies. Even in this tough economy, people have delayed their printer buying decision for their printing. Our supplies growth by first half of '10 will converge with a sellout, this is going to be very, very important thing that we are tracking.

What we want to do now is take by each segment. First, Ron will talk about the market dynamics and Steve will talk about Consumer and Small and Medium business. Bruce will talk about Enterprise and then I will come back, talk about Graphics and wrap it up. So let me get Ron here, he is our Senior Vice President of Strategy and Marketing and he is going to talk about market dynamics.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Ron Coughlin** - *Hewlett-Packard - SVP - Worldwide Strategy & Marketing*

Thank you, VJ. So given today's market situation, it is more important than ever that we have a deep understanding of the market dynamics behind the printing category. And we've always had rich capability in this area, but for the last six months we have redoubled our insights. We've deep dived on customer needs, customer behaviors. We've deep dived in mapping every page by every application by every type of hardware by every, geography around the world.

We have deep dived on plotting growth opportunities for the category and for, more importantly, for HP. And it are those insights that provide the foundation of the strategy VJ just laid out, the projections that I'll make now and the growth areas that Bruce and Steve will talk to you in it.

If we look across our three segments, in the short-term there is really four key dynamics. First, the printing category has been cyclically impacted by the current economic environment. This is exemplified best I believe by supply's pantries, customers used to have three, four, five extra cartridges. In this economy, 20% to 30% of customers are cutting that back to one or two extra cartridges, clearly a cyclical impact.

Number two, our Supplies business model is showing resilience in this great recession. If you look at sell-out, which is what we care about most, sell-out is what business and consumer customers are paying for supplies, sell-out over the last two quarters is flat to slightly declining showing resilience. That, to us, is the biggest barometer of the health of our Supplies business today and into the future.

Third, our install base is stable. And if you look at purchase cycles, they're getting extended, lower churn and in the short term that has a positive impact on our profitability. And the lastly, this economy's accelerating underlying dynamic to print services or pay-for-clicks. If you think about consumers going into a Walmart buying 40, 50 four by six photos, if you think about an enterprise customer shifting from a transactional purchase of a piece of hardware and supplies to a contractual long-term agreement with Bruce's team, that trend is getting accelerated.

From a long-term standpoint, as VJ said, printable content is exploding. It's going to triple, this will drive page growth and I'll talk more about this. Second, analog-to-digital conversion, 200 billion pages coming in to HPs ecosystem, we believe we have an advantage portfolio in the digital space and the pages are coming our way.

Those pages, though, aren't going to go to the same units that historically have happened. If you look at the statistic VJ talked about, 5% of the units, 60% of the pages, you'll see a migration to higher value units within our portfolio.

And then, lastly, printing ecosystems, let's take the example of Lori Lorenz an HP employee who happens to work in San Diego, mother of two. When she's working on a print project with her kids or she's scrap booking, she's printing those prints at home on her Photo Smart. Coming home from vacation, 40, 50 prints, she sends up to Walmart's website powered by Snapfish and picks them up at Walmart.

And when she's looking to print at home she prints on her Photo Smart -- Lori Lorenz's ecosystem of printing needs. And we want to build ecosystems across consumer, across SMB and across enterprise and then put web properties on top of those ecosystems and that is a unique capability for HP.

Now going deep on supplies for a moment, if you look at the last three quarters, what you see are three key impactors to our supplies revenue numbers. The first is sell-out, the second is currency and the third is channel inventory, if you look at sell-out, as I said earlier, sell-out has been flat to slightly declining.

The majority of the decline that you're seeing is driven by currency and channel inventory. As we look forward in the first half of 2010, we anticipate sell-out and revenue converging in the first half as we moderate our channel inventory actions.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

Now a main driver of supplies growth is printable content. So if you look at digital content that's growing, the analog to that is principle content which will triple over the next three years. If you're looking for printed page growth, you have two key variables at the macro level, the amount of printable content that exists and the amount of that content that actually gets printed.

There will be some erosion in the amount of printable content that gets printed. But the explosion of printable content, think about your email inbox, think about the photos on your phones that weren't here several years ago, the photos on your Smart Phones, the photos on your digital cameras. Think about the Proctor & Gamble packages in India, the Unilever packages in China, that is principle content that is exploding. That is going to drive digital page growth of 4%. But, again, it's not going to be in the same places.

Yes, there will still be home photos printed but there will also be more retail photos printed. There will be more photos done by Snapfish which is growing double digit in the midst of this economy. There will be more prints done by wireless devices where we're seeing 40%, 50% growth. Mobile devices will be printing significant portions of our customers want print enablement on mobile devices and Steve Nigro will talk about this.

You'll see more contractual pages. In the face of this economy, our top MPS customers in the US are printing more. You will see growth in contractual pages but make no mistake about it, the dominant trend in the print category for the next decade is this analog-to-digital conversion. 92% of pages are in that trend. The analog-to-digital conversion is the dominant trend in the print category for the next decade.

And if you look at it on an application basis, what you see is significant digital page growth, across magazines, newspapers, collateral, packaging, coupons, significant pages coming to the HP ecosystem that weren't there three, four, five years ago. Now there's lots of discussion about the declines in newspaper, the declines in magazines, books, there's no declines on digital versions of those. Why? Because of our ability to monetize the long tail on demand, the ability to create local advertising models.

So we believe firmly that digital's characteristics actually provide the ability to create new business models for some of these categories that are under fire. And if you look at what's actually going to tip, tangibly, 16 billion books. Now if you say, "Well, 2019 is a long way away" 2009 marked the first year that more digital, more books, titles were printed digitally than analog. So this past year more book titles were printed digitally than analog, not more books yet, but more book titles. And that's going to drive the tip of books, tip of catalogs, packages, et cetera, that's going to drive our growth.

Now once you identify your page growth and where the page growth is going to come from, then you need to align your hardware strategy. And this is where this astounding number of 5% of the units deliver 60% of the pages. Now if you look in the middle column, you see what drives that, consumer inkjet might put out 100 pages a year, a digital press 1 million pages a year.

So if you look at a category level, you will see a migration up this stack. You will see a category mix shift up this stack but that mix will be even more pronounced for HP. Now you've thought about us as an annuity business and if you look at our, the blue box, that's our traditional annuity business, as Mark and VJ highlighted. These units where our portfolio is migrating to is an even better annuity business.

Your placements last five, seven, nine years; you have contractual relationships. You have supplies locked in, this is a very positive mix shift for us and margin neutral in the long term. So if you take IPG in total, it's a \$268 billion opportunity growing 2% to 3%. And we think we can gain share in that marketplace.

Three strategic thrusts, on the core where we have share leadership, brand leadership and an advantage go-to-market, you will see us innovate, innovate to drive category growth, to drive page growth and to gain profitable unit share. And the first web printer is a perfect example of that type of innovation that even enables new business models.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

In graphics you'll see us drive to accelerate this analog-to-digital conversion and capture every one of those analog pages coming to digital that we can with our advantage portfolio. And then, lastly, on the Contractual businesses, RPS, MPS, a great example is the enterprise print services, \$65 billion opportunity, tremendous headroom from a share position. But importantly, we have a right to succeed. We have IT capability nobody else has. We have print capabilities and now we have the EDS service capabilities.

We have the capability to win in the future and we're winning now. And Bruce will talk more about this, so it's a big opportunity. We'll now walk you through those opportunities and how we're going to pursue them segment by segment starting first with Steve Nigro on consumer and SMB.

---

**Stephen Nigro** - *Hewlett-Packard - SVP - Inkjet & Web Solutions*

All right, thank, Ron. Good afternoon. I am going to be talking about growth. And specifically I'm going to be talking about how we're going to grow our core Consumer Inkjet business, our core business, or FMB facing business and how we're going to leverage those technologies to go after new pages, and I'll talk specifically about retail publishing.

Now before I'll talk about how we're going to do this, let me talk about the market. If you look at our inkjet technology and the markets we can address with this in the consumer and SMB space, you see a market that's growing a little over 2% over the next couple of years. And if you look at that growth, you can see we're well positioned to gain momentum in Consumer Desktop, business Desktop Inkjet and of course retail photo or consumer photo.

Now why we believe that is we come from a position of strength. You can see leadership market position, 47% share, gaining sequentially three points. But more importantly, it's our IT position and the technologies that we bring, scalable printing technology, the inks, the systems and how we bring those together to go after these pages.

But what we're going to do strategically, first, in our core, expand ink in the office, go after those business pages taking advantage of our 50% lower cost of operation. Second, get excitement in the Consumer Printing business. Now the purpose of this is two-fold. Number one is to get customers wanting and coming to HP and buying our products. Second is about driving pages through our products. Those are both how we're going to drive growth in our core.

We're going to take those technologies and we're going to leverage those and to great growth opportunities like retail publishing, a market where our inkjet assets and page growth will allow us to grow significant revenue and build on our momentum. Now we bring our web assets, things like Snapfish, Cloud print and we bring those together and we apply them to all our businesses.

And what this allows us to do is, it allows us to bring a more powerful solutions to our customers but it also lets us drive those pages, it lets us drive that analog-to-digital conversion. And finally, if you step far enough back, this is all about driving our supplies growth. So let me talk a little bit more about each one of these strategies.

So first, ink in the office or business inkjet, going into 2009 this was probably our most important core growth strategy and we've had great success this year and we've had success for really three reasons. First, our value proposition, going out and saying you're going to save the customer 50% on their printing relative to the color laser jet and that's pretty much intrinsic to the technology.

Second, it's about creating great products, it's about creating products for those business customers. And then third, it's going and talking to those customers, letting them know about our value proposition. And we did that this year.

And what you saw in a declining market, we grew our high-end business inkjet units year-on-year. We also, for those business customers, were able to gain share relative to low-end laser market. So it certainly is working from a unit growth. But what's more important in many ways is the page growth that comes with that.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

And what you can see our office jet pro printers print five times the number of pages than our average consumer printer. And so what that says is we are getting to those right customers and they value what we bring. We are bringing the leading products and solutions. Now that doesn't happen by just taking a consumer inkjet printer and declaring it a business inkjet printer, what it takes is designing a printer that meets that customer need. And that is what we bring, the lowest total operating cost and the superior business performance.

Its things like duty cycle, being able to print that many pages, it's the durability of the output, it's the intervention rate of the supply because we find people who print a lot, they don't like to keep replacing those supplies. It's that total solution that lets us meet the needs of those customers, also, given our go-to-market capabilities, our multiple channels that we have, we are able to get these out to our customers. So we feel great about what we did this year with business inkjet.

I talked about creating excitement in the consumer segment and really, again, two purposes, one, to get people excited about our products and buying our products. The second is about getting them to print. Now I'll give you an example of that.

Ron showed the wireless ad. About a year ago we really made a big push on wireless printing. What we saw was customers buying up, buying those wireless printers, but we also saw, for example, in North America if you look at a like-to-like product, compare wire versus wireless, we see our wireless printers print 20% more pages than our non-wireless printers. So it is working.

So what we've introduced is the first web connected home printer, something you'll be able to go out there and see. It is a printer that now directly connects to the Cloud, connects to the content that's out there. It allows you to pull that content down; content that's relevant to printing. And I'll give you an example actually; I'll give an example from my wife.

Coupons, VJ mentioned coupons.com; you have an application, a coupon application. Before my wife goes out shopping she knows what she's interested in, she goes to the printer, just touches it, sees the coupons that are available, gets that Yoplait Yogurt coupon, that Special K coupon, prints it out and goes -- saves her money, analog-to-digital conversion, print on demand, all the trends we're talking about.

But the other thing of equal significance now is we have a direct relationship with that customer through our printer, through the applications and the web services we provide, we now are able to constantly come up by ourselves and with the applications development community, new applications that we can go and offer those customers. So it's really a significant innovation for the product and certainly printing.

Another example, mobile and Cloud printing -- today it's pretty tough with your Smartphone to be able to print, now what we have seen is in the case of the iPhone, we put out a printout. We've seen over 400,000 downloads of that app. In fact, based on our research, 85% of Smart Phone owners have a desire to print. So let me, again, give you a used case you might be able to relate to.

You get up in the morning; you have your Smartphone. You see an analyst report; you want to read it, it's pretty tough to do on that small screen. So now you'll be able in the future to just go look at it, say print have it go print to your printer in your home or if you want, hit print, have it go print to your printer in the office. That's the sort of solutions that we're going to be coming out built on the HP ecosystem.

And as VJ mentioned, by the end of 2010, we'll have 75% of the Smartphones will have this HP solution developed and embedded in it. So that's kind of our traditional core Consumer business. We also, when we look at the consumer business and pages and the ecosystem, it kind of leaves you some other opportunities, photos are a great example.

So we see, if you look at overall photo, actually the market growing at 4%. Now where the growth in the future is coming from, it's in retail and it's online. And what we have done is we have built our portfolio, certainly home, desktop, retail, a leading retail solution, plus online. And we now have the ability to go where the pages are as well as give the customer a total experience.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

But you can see of these segments, retail is actually the fastest growing segment of the three. So let me talk a bit about the retail segment. So one of the things we've been talking about is growth and momentum in our retail publishing, now I've been talking retail photo, retail publishing. What's the difference?

Retail photo is kind of your traditional photo market, four by six prints, five by seven prints, eight by ten prints, traditional products. Retail publishing is that plus other products you can produce, posters, calendars, banners, books, greeting cards. So the market is actually, the market potential is quite large.

And so what we've done is we've put together that leading solution set. We have the leading in-front-of-counter solution. We have the leading behind-the-counter solution; we have the middle ware that brings that all together. And we have the web assets that drives prints to that solution. And we can bring that all to our retail partners, and we allow them to grow the category. And we allow them to actually have a smaller environmental footprint, and its working.

You can see some recent wins we talked about, TESCO UK, Duane Reade, Kmart Australia. I want to talk about two of these accounts. First, one that's not up here is actually Walmart. So Walmart and HP and retail publishing, we're actually expanding our relationship out of some test stores that we have been doing with Walmart, so that's an exciting future for us.

Kmart Australia in some ways is the other end of that. Kmart Australia, 184, all their stores in Australia are going to the complete HP system. So if a consumer goes into Kmart Australia, they go to the kiosk, they print it, HP. They print it behind the counter on the mini lab, print it, HP. They go online, co-branded, HP Snapfish, they get it through mail, off of Indigo or an HP inkjet mini lab, all prints coming from HP, total ecosystem play.

So that's a great example of the future business model that has the ecosystem coming to play plus also this long-term annuity model associated with that. So speaking of long-term annuity models, Bruce Dahlgren is going to get up here and talk about our enterprise.

---

**Bruce Dahlgren** - Hewlett-Packard - SVP - Managed Enterprise Solutions

All right, thanks, Steve.

---

**Stephen Nigro** - Hewlett-Packard - SVP - Inkjet & Web Solutions

Thanks.

---

**Bruce Dahlgren** - Hewlett-Packard - SVP - Managed Enterprise Solutions

So three key points for me. The first, there's a lot of opportunity for growth in enterprise for IPG. Second, the movement to contractual-sales-services-led business has benefits to both HP and our customers. And then third and finally, the dynamics in the industry, the trends that are taking place right now play out to HPs strengths. These dynamics are advantage to Hewlett-Packard.

Now, as VJ said, the addressable market for enterprise is \$121 billion and you can see it's broken up almost evenly between the hardware supplies and the software and services. You will also notice that the majority of growth is in the software and services side.

Another key area of growth for us, quite frankly, is showing up. When we increase the coverage and the skills of our sales team and our services team, we grow our share of wallet. Today we are mid-single digit market share, tremendous opportunity for us to continue to grow.

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

Now there are three basic trends that are happening within the enterprise in our industry. The first and the foundation, is in the convergence of technology, simply stated, taking a printer, a copier, a fax and a scanner and bringing it together as one multifunction device. This allows the customer to take cost out of the business, converge a technology and improve the device ratio.

The second major trend is around the management or network tools. This is the opportunity to go through the network, the lifeblood of the enterprise, find the device, understand the utilization of that device and ultimately help the end user and the satisfaction.

Finally, the third main trend is around workflow. And the way that I would describe this is every business has literally thousands of paper-based processes, think of your business, whether it's HR or legal or marketing, finance, literally thousands of paper-based processes that move manually through that business.

Workflow is the opportunity to streamline, or take those steps out, use techniques and software and the tools, the multifunction devices as onramps and off ramps to speed up that workflow ultimately improving productivity.

Now these three trends play out in our strategy. As VJ said earlier, we've remained consistent with this strategy now for 3.5 years. And we will continue on this strategy, a strategy of optimized infrastructure, managed environment and improved workflow it's a strategy that's used by all of our sales force in with the customer. And even customers are embracing this as their strategy in making this imaging and printing environment more strategic.

Now you'll also notice, consistent with what Mark Hurd showed as far as the corporate strategy, you can see that the foundation is the hardware and supplies. And then building on that are two layers of software, the management tools, network based tools and the applications. All of this is wrapped together with a service offering that in the industry we call managed print service, or MPS.

Now we have spend the last 3.5 years building out this portfolio, building out all three layers of our strategy starting with the broadest portfolio of products, laser, ink, graphics, even Indigo. We then built out the management tools with things like Web Jetadmin and Universal Print Driver. We've also enhanced our workflow opportunities with applications, up until last week, 68 of those.

We've created an open extensibility platform that allow the best independent software vendors in the industry to come and program on our platform building out these applications to help streamline workflow. But more than that, just last Monday, on September 14th, we had the single, largest announcement, a launch in the enterprise business for us.

We announced a broader relationship with Cannon, after 25 great years, we now have the entire portfolio with Cannon, its copier products, production products. We've added new management tools and we just added 13 new applications, both partner and industry, all of this coming together for the sales to go and bring this to the customer.

Now one of the areas that we've talked about is managed print service. Simply stated, what managed print service is, is an opportunity for the customer to get visibility to this imaging and printing environment and then take cost out. A lot of the customers are asking for productivity enhancements now as well, they'd like top pay for the use as opposed to buying these assets and putting them on their books.

A lot of this trend towards managed print service has been driven by the recent economic challenges and also, of course, the environmental impacts and green initiatives. So it's a large growth opportunity for us as we continue to look at the space here in enterprise.

Now, from our assessment in working in this market, we've determined that about a third of the customers have embraced managed print service. This creates an opportunity for another two-thirds of the customers as we look for growth. But more



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

than that, within the third that have embraced or embarked down at managed print service, what we find is only a small part of that enterprise has really started managed print service. Typically it will be in a department or a function or a part of their organization and there's opportunity to grow even in the existing MPS customers.

And this is showing up in our progress. What you see here is that both externally with recognition from Gartner and the Magic Quadrant, two of the results that we've had in the marketplace, cumulative total contract value over the life of our managed print service offerings are over \$5 billion today, 18 billion pages, this we believe will help us continue to grow at two times the market.

But we've done more than that; we've also decided that our customers need a reason to move down this path, to embrace what we can offer here. So just recently we announced a Print Payback Guarantee. This is an opportunity to take the experience and the capability of HP and put it behind the cost savings to support the customers as they venture down into this managed print service.

We've also introduced a page plan, largely in the emerging markets, but it's a great opportunity for customers to take that first step in a simple way to leverage the tools and capabilities. And then we did plug-and-play solutions around security so that they can capitalize on all the capabilities and the benefits of managed print service.

Now we don't want to stop there, we know that in order to win we have to add value. So what we did is we built a vertical industry team leveraging expertise that we have within HP and also talent that we've recruited and our solution partners. And what we do is we package those now into solutions that we can bring into the market.

I mentioned we just introduced 13 last Monday. One example of those 13 is in the insurance industry, specifically auto, life, property and casualty. What we see is one of the biggest concerns for them and also the biggest paper based products is around claims. Now I'm not sure how much you know about claims, but the average claims process in an insurance company takes between eight and 12 paper based steps.

We know through simple capabilities like scan to email and our solutions that we can take that down to five. A 1% improvement in the claims process could save a company \$30 million of cost. And those same insurance companies know that 35% of their customers select them because of their ability to process claims.

Now just an example of how we take our portfolio, build the solutions, our partners, the capabilities, wrap it around with MPS and bring value, this gets us out of the price discussion with customers, helps us generate more revenue and margin.

So the net result is advantage HP, from the broad portfolio all the way down through the solution example I just gave, advantage Hewlett-Packard. And it shows up in wins, our win rate has improved we're leveraging EDS and we have over 2,000 managed print service customers. The net result is a lot of opportunity for us here in enterprise and IPG and advantage us, so I'm going to pass this over to VJ now to talk about graphics.

---

**Vyomesh Joshi** - Hewlett-Packard - EVP - Imaging & Printing Group

Thank you, Bruce. So let's talk about the Graphics business because there are 70 segments with 1.4 trillion pages, \$180 billion market in collateral, 100 billion signage, 10 billion photos, these all are growing, even in tough market, let me give a very specific example.

Photo books was a tremendous growth in the business selling season last year. It can be a big growth engine even for 2009, we have 70% market share of photo books. Think about the marketing collateral and the overall publishing that we can talk about. We absolutely believe the portfolio that we have, all the way from design to signage to Indigo to the Web Press and technology



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

from scalable inkjet printing technology to think about (inaudible), Indigo, all these technologies are unique with IP and nobody else has it, seven year plus the relationship that I talked about with the customers.

And the other important part here is the pages are coming our way. And these PSP, or print service providers, are not only looking for digital printing technology. They're also looking at a partner who can integrate that into their IT systems there is only one company which can really do that.

We can take, move that to the digital, help them to build their business and then integrate that into their IT systems and that's the reason we have a very unique advantage and opportunity. Now let's talk about Indigo.

I already told you that from photo point of view we have 70% market share. When we look at the marketing collateral, 40% page growth, even in a tough market, when we know the ad dollars are going down right now, we are having that kind of a page growth, overall Indigo growing 17%. When you think about, and Ron talked about all of these, Lori Lorentz things. these kind of photo books, you will be able to create that with Indigo.

And each and every page is much better color and you can understand why this drives the supplies this is the thing that we can do. And when you look at all of the aspects of what we are doing, the stuff that we are doing with like National Geography where they will be able to publish a customized photo book for they collect 200 best pictures and build out a custom photo book.

Quality, when National Geography says that's something we want to get into customer hands, we are talking about the quality. When you look at the magazines you could make customized magazines, again, using Indigo technology, we talk about 1.2 billion pages of the books are printed with Indigo.

And the labels, the digital labels, we have 80% share, that's a big opportunity for us. Companies like P&G where they are basically saying they want to make sure that the digital printer they get could have the ability to print labels because we have the unique technology that you will be able to print labels and nobody else. And these are specific things that I am talking about. These are not very specific examples I can show you that that's why we get excited about why these pages are going to be very important for our growth.

Signage market, when you look at every screen printer in the world will be replaced by HP, that's the kind of thing that we are talking about, already in Israel, in Taiwan, we have replaced all the screen printers. And we already have an install base of 6,000 devices.

As I said earlier, the thing that I love the most is gallons of ink. And when you think about from bus wraps to train wraps to the billboards, these things are just changing out pages after pages after pages. And that's where the intellectual property and our broad portfolio helps.

Our market share from 2005, we had only lousy 9% market share, it has gone to 36%. We think that we have opportunity here to even gain more share in the signage market. When you think about the commercial signage, most of the products are solvent based. They have a lot of environment issues. And with our latex technology, you don't need these things.

So when you think about enterprise customers, we're saying make sure that you make the signage in an environment friendly environment, they will come to HP. Again, all these things integrate into the IP systems for print service provider, tremendous opportunity for us.

Web Press, the good thing about it, this is scalable printing technology leveraging into a completely new application. We have actually now customers who are coming to us and saying we want to move to the digital. This is the technology. When you have [Howard Donnelly], when you have Pitney Bowes who are the printers basically saying that HP is the only company who



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

has the technology that we want to partner with them, that's the proof point that we have the technology with which we will be able to drive this analog-to-digital transition.

When you look at outside, we have shown some stuff. We think that when you have clearly a digital newspaper, this is really something that we believe is going to drive pages. By 2010, 5 billion pages will be done under Web Press. And by 2012 we can bet there will be that number could be 30 billion pages. These are big numbers using our inkjet technology to drive the transition that I am talking about.

We think that overall Graphics business, a \$30 billion opportunity will uniquely position HP with which we can grow. So let me wrap it up. We have a tremendous opportunity for us and I'm very excited.

I believe that HP has the broadest portfolio, the intellectual property with which we can gain share through the innovation in the core business, we can go and get the new (inaudible) stream with managed print services, with retail publishing, with our Graphics business. We need to continue to take cost out with our operational excellence. And we believe that we are positioned to continue to profitably grow this business.

Think about not just only innovating in the core, but building these businesses and investing in them because we want to gain share in the core, investing them to get more share of all the pages which are going digital. Thank you very much. I'm going to take some questions. Yes? Lets' get the mic here first.

---

**Jim Burns** - Hewlett-Packard - VP - IR

Take one over here.

---

## QUESTIONS AND ANSWERS

### Unidentified Audience Member

Thanks, VJ, two quick questions. First, you sound confident that the printer supply channel inventory reduction is stabilizing. Is there any potential driver that the channel would actually start to increase inventory of supplies over the next year? First question and then I have a quick follow-up.

---

**Vyomesh Joshi** - Hewlett-Packard - EVP - Imaging & Printing Group

Well, I think what we want to do is we want to really look at the sell-out and that's what we are focusing on, not on the channel inventory. When the economy hit, the channel inventory had to be adjusted. We think we are past it. As I said, by first half of 2010 it will converge to the supplies growth. What we want to do is we want to get more focus on sell-out and I think that's what we are focused on.

---

### Unidentified Audience Member

Okay, so the guidance doesn't assume any inventory replenishment.

---



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Vyomesh Joshi** - Hewlett-Packard - EVP - Imaging & Printing Group

Well, I think the way we are thinking about is we are looking at what the economy -- especially what Mark said, unemployment. We want to really watch that. So once the economy comes back, the employment stabilizes you're going to see the supplies growth.

**Unidentified Audience Member**

Okay. And just second question, quickly, given the higher growth in some of these higher usage segments, what's the right crossover point, is it two years out, five years out where supplies could grow faster than hardware?

**Vyomesh Joshi** - Hewlett-Packard - EVP - Imaging & Printing Group

Well, I think we really want to make sure that we have balance of the hardware revenue and the supplies revenue. Having 68% supplies mix is really not a healthy thing because when you talk about these new opportunities, the hardware margins are also good. So we want to make sure that we continue to grow our hardware revenue and supplies and not just have a difference in terms of what the supplies growth would be versus hardware growth.

The second important part for us is the opportunity right now through innovation that Steven talked about to get more units placed and then drive modest supplies growth and the second part of the (inaudible) stream. I really believe the retail publishing, the MPS opportunity, graphics, huge. And the customers are going to be with us for a long time so that we will also stabilize in terms of how the supplies growth is going to continue to help us in profitably growing IPG.

**Bill Fearnley** - FTN Equity Capital - Analyst

Yes, thanks, VJ. Bill Fearnley, FTN Equity Capital, if the core Ink and Laser business is going to grow 1% and if the pantry affect continues to be a headwind, should we expect you to get more aggressive on the inkjet and laser hardware side to get more placements now to help drive more ink sales in '10 if you can't put more in the pantry at this point?

**Vyomesh Joshi** - Hewlett-Packard - EVP - Imaging & Printing Group

Well, I think Ron talked about pantry effect is real. We are working with our partners to make sure that we bring that pantry back up. At the same time, Mark mentioned our approach right now is we have taken so much hard work that we have done with respect to the supply chain, streamlining, taking the cost out, yes, we want to gain share. But we are going to be careful. You don't want to chase very low end of lasers, for example.

We know that nobody makes money there. So what we want to do, we want to be very, very selective. We want to go after high usage segments, as Steve talked about, the business inkjet. That's a very, very high usage segment. We want to gain share. So what we are going to do, we are going to select a segment. We have the market share right now, the units, we are going to be very focused on the pages that we can go after. And, yes, we will gain share in core, ink and the laser.

**Bill Fearnley** - FTN Equity Capital - Analyst

Thank you.

**Vyomesh Joshi** - Hewlett-Packard - EVP - Imaging & Printing Group

Yes.

Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Brian Alexander** - *Raymond James - Analyst*

Brian Alexander with Raymond James, right here. Did I hear Ron correctly when he said that the higher usage segments in IPG are operating margin neutral? Why would that be the case just given the richer supplies mix, higher hardware margins? Is it because the supplies sold per device are greater but the margins for the supplies there are poor?

**Vyomesh Joshi** - *Hewlett-Packard - EVP - Imaging & Printing Group*

No, no. The reason I think what we want to do, we want to reinvest. We want to reinvest in the coverage. Bruce talked about the great opportunity that we have in our enterprise market. We are not covered. We, what we want to do, we want to hire more sales people, work closely with EDS and make sure that we drive MPS growth.

Second thing, all these new investments that we are making, like Regal Publishing, MPS, initially, first two, three years, they're not going to be very profitable because we are taking the customer and basically saying we want to move out the old hardware, we want to get HP build out and get the rhythm.

So what we are basically saying that as we move into this new opportunity we are going to continue to drive the profitability of 15% to 17% that Cathie talked about and we want to grow the revenue. That's what we want to focus on.

**Jim Burns** - *Hewlett-Packard - VP - IR*

Shannon?

**Shannon Cross** - *Cross Research - Analyst*

Hi, VJ I wanted to dig a little bit more into the MPS market and your strategy there. This is your fourth or fifth time into copiers. It's a tough market. Clearly, you're going to try to leverage EDs. So can you talk a little bit about if your copy media, sales force to sell the printing, how you're going to be servicing the copiers, how you're really going after this marketplace and over -- just sort of how you're going to do it and how you're doing it differently than in the past?

**Vyomesh Joshi** - *Hewlett-Packard - EVP - Imaging & Printing Group*

So I'm going to start and then I'm going to ask Bruce to help me on this answer. So, first of all, MPS, as Bruce talked about, an \$18.7 billion overall opportunity -- even with our current portfolio we are growing two X the market.

Now with the Cannon relationship, the last 25 years -- I agree with you this is the fifth time. But we have now the product portfolio with which we can go with confidence and say look, we can help you to not only look at your desktop work group but we can go into the high end of the production and we can replace those things.

The second important part here was the Web Jetadmin, the universal print driver and then the OXP with which we can help solution partners who are helping us. Plus this has become more -- it is coming more towards us because it is becoming more of an IT problem rather than just a procurement problem. So that's why we feel that we have the portfolio, the tools and the software strategy with which we can make that happen. So, Bruce, I don't know if you want to add.



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Bruce Dahlgren** - *Hewlett-Packard - SVP - Managed Enterprise Solutions*

Sure. Can you turn on my mic? Just a couple quick comments that I was thinking about this -- first, if you look at the market for us, many cases we are not approaching opportunities where they are stressing the copier side. So by having this broad portfolio we can approach many more opportunities out there. This increases our funnel and potentially our business.

The second thing is if you look at the pages, it's pretty equally split between printing and copying. Now that you have that full portfolio we can bring more of these pages into our MPS contracts. So in both cases they're good.

Skills keeps coming up. Do we have the skills? Well, we spent the last several years building up skills that can really address all of this whole office environment, we can still improve on that. But I think we're capable now of selling the whole portfolio.

And then just to give you an idea of a future growth that I see in MPS, it's not just stopping at the office but getting into the production and the commercial side because I think we'll find more enterprise customers starting to drive us into the graphics in other areas.

---

**Shannon Cross** - *Cross Research - Analyst*

Just a quick follow up, who's going to be managing the printers and the copiers and servicing and them and that; is that EDS; is that HP Cert? Is that a division out of your group; or are you using Cannon?

---

**Vyomesh Joshi** - *Hewlett-Packard - EVP - Imaging & Printing Group*

So what we have done is really partnering with Ann's organization making sure that we partner there in terms of the delivery part. But from the sales side, it's Bruce's organization that will drive that. Last question, then -- over here? Okay, two questions, okay, let's just get it and I'll get to you then. Last question, okay?

---

**Rich Gardner** - *Citigroup - Analyst*

Okay. VJ, Rich Gardner. I'll make them quick. First of all, Ann, your guidance regarding the IPG segment for fiscal '10 suggests that operating income for the segment could be down year-over-year. I'm a little bit surprised by that. I'm wondering if you could talk about whether that's purely a function of hardware picking back up next year or whether you intend to get more aggressive on hardware pricing and placements, where you sense there's more elasticity?

---

**Vyomesh Joshi** - *Hewlett-Packard - EVP - Imaging & Printing Group*

Yes, yes, and then one more because if you only invest into these new end (inaudible) streams that we are talking about. We absolutely need to go after the hardware placements because as the market is coming back, as Cathie talked about, you're going to have a single digit unit growth, you want to go capture that.

The second thing that we want to do is we also want to invest into this new (inaudible) stream that we want to do. We absolutely believe the right thing is that balance in terms of the revenue growth and the margin that Cathie talked about.

---

**Rich Gardner** - *Citigroup - Analyst*

Okay.

---



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

**Vyomesh Joshi** - Hewlett-Packard - EVP - Imaging & Printing Group

Ben?

**Ben Reitzes** - Barclays Capital - Analyst

What do you -- I know you said 0% to 2% in terms of overall revenue growth, which is lower than you've said in the past. What is the long-term growth of supplies and in context with what supplies are doing right now? It seems like supplies are picking up. You showed the chart. Sell-out is starting to far eclipse your actual sales and it looks like it catches up by next quarter. So what is the long-term growth of supplies and that mix?

**Vyomesh Joshi** - Hewlett-Packard - EVP - Imaging & Printing Group

So IDC talks about 2.7% growth when you look at the long term. We think that depending on our success we should be able to do better. But the economy needs to come back. The employment needs to come back and we need to drive the page flow that we are talking about. Okay? Mark? Thank you.

**Mark Hurd** - Hewlett-Packard - Chairman, CEO, President

All right, well, VJ didn't have a lot of help on stage here from a Q&A perspective, but I would tell you that in IPG I think to some degree we've not done as good job in the early part of the year describing this sell-out issue. And certainly you're seeing sell-out, I think Ben's question, coming back.

And when you look at the 3% market growth it's our intention to do better than the market. So when you go look at where we think we'll land it'll be better. I think, Rich, to your question, easy for us. We've lifted our operating margin targets in terms of rate as part of what we just did today. I think it'll be important for us when we look at these businesses like Retail Photo Kiosk -- I kind of thought Steve had a point I want to make again.

We did a test with Walmart. We agreed to now expand beyond the test. And that's an example, when you look at that kind of investment, those things stay installed years, seven, eight, nine years. So the stickiness of solutions like MPS -- and we've got customers that have predicted to print 900 million pages this year, MPS customers that have wound up printing 1.1 billion.

So when you go look overall, the secular changes in printing are more printing and we're trying to position ourselves to get the pages. We'll do better in this business long run as a result of these changes we've invested in. So, anyway, I want to make sure that's clear.

We will not necessarily have to do more corrections to channel inventory vetting materiality in 2010. But the combination of having done that in 2009 in conjunction with currency changes starts to get that conversion so the sell-outs will report numbers that we've talked about here for the past couple months. So I just wanted to make a couple of those comments on IPG.

Listen, in closing, I'll probably try to give you a couple of quick thoughts. One, HP is simply a stronger, more competitive company than it's been. Second, the market is large. It's robust and we believe it's headed our way.

We still have operational things at HP to do better. We've talked about our supply chain. It is better than it's been. It needs to be better than it is. And it is a material opportunity for improvement for us.

Second, as Ann referenced and I touched on, we've done a lot of work in workforce optimization. We have more work to do. And it is a material opportunity for HP. We have to invest in coverage to cover more of the market. We know that if we could get that \$1.3 trillion market into one very efficient sales call and we could do it all at one time, we would exit with more revenue



Sep. 24. 2009 / 8:15PM, HPQ - Hewlett-Packard Securities Analyst Meeting

than we have today. We have to get to more buyers and we've invested, as I've given you numbers, materially in growing that coverage. And we will have to do more.

The integration of EDS is to a point where it's at a pivot point to focus on growth. We've done a lot of work to cost. As I mentioned, there still is work to do. But we will focus on growth and the implications that Ann gave you on what it can do across our entire portfolio, the Valley example included are material for us.

All of that leads to an opportunity for us to outgrow the market. And, again, to the earlier questions, I would focus less, as people want to say, the prognostication of market growth that HP made today. Focus on the fact we're advantage to whatever that market growth delivers us as an opportunity.

And last but not least, if we get this done, we will expand our margins. And today we made two material changes in long-term targets, one in services, one in IPG. And that IPG expansion was in the context from a rate perspective of continuing to invest in the businesses that we think have a long-term material impact on our overall margins.

HP is stronger and we will execute on the things we told you today. So we'll take a quick break and be glad to see everybody out in the reception area in five minutes. Okay, great. Thank you very much.

#### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2009, Thomson Reuters. All Rights Reserved.

