

FINAL TRANSCRIPT

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HPQ - Hewlett-Packard at Credit Suisse Group Technology Conference

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Bill Shope

Credit Suisse - Analyst

PRESENTATION

Bill Shope - *Credit Suisse - Analyst*

Okay, thank you all for coming. For those of you who don't know me, I am Bill Shope, Credit Suisse's IT hardware analyst. This afternoon, I am pleased to introduce Shane Robison, the Chief Technology and Strategy Officer at Hewlett-Packard. Shane reports directly to Mark Hurd. His areas of responsibility include in M&A, strategy, technology strategy, including running HP Labs, and also he is responsible for overall marketing strategy for the Company. So Shane has deep experience in the technology industry and obviously is responsible for many of the core decisions, particularly the longer-term decisions for Hewlett-Packard.

So without further ado, I would like to invite Shane up to the stage. Thank you very much.

Shane Robison - *Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer*

Thank you. Good afternoon, everyone. Thanks for spending the time with us. I have to admit normally my presentations don't have this slide in it, so I'm sure you are all familiar with our disclaimers and I am not going to read it to you, but I am required to have it in there.

What I wanted to do is I'm going to be very brief because I wanted to spend more time on Q&A, but I thought it would be worthwhile just to set a little bit of context, talk a little bit about the industry trends and then a quick overview of our strategy.

A lot of this stuff you all know in either bits and pieces or the comprehensive nature of it, but it's always interesting when you see it in writing that the information explosion, the world population explosion, there's just a lot of exciting things happen that give us as an IT company an opportunity to expand and grow our business. So as the worldwide population grows from 6.6 billion to 7.8 billion, again people who need and want the kinds of products that we sell.

In India alone, the population between 20 and 50 will grow by more than 60% and the demographics are changing so dramatically in different parts of the world that as a worldwide multinational company, we have to think about each country and each region in the context of the unique demographics that they have. So Germany obviously is going a very different direction than countries like India.

Worldwide urban population is expected to grow by about one billion people, which is roughly the equivalent of adding another Beijing every month. Information technology has we think leveled the playing field and we can talk about that a lot in terms of things that information technology can do to help us address sustainability, all the challenges we have with carbon footprint, healthcare, education, all of which are opportunities for us.

The growing middle class is going to swell from about 440 million to 1.2 billion and the demands that those people have to continue to improve their lifestyles and have access to information will again drive new opportunities for us. About 20% of the world's population are online today, which means we've got another big opportunity to help people connect with the information that will improve their lives and improve decision-making.



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Information doubles about every four years, but more importantly, digital information is doubling every 18 months. So a lot of our longer-term strategic direction is in the context of being able to make sense out of that information, give people easy access to it independent of the device that they are using or the location that they are trying to access it from.

A lot of new business models. One of the things we call radically efficient is all about -- is very efficient, open industry standard architecture for IT infrastructure. But then at the user end, there's radically efficient new business models as well, so crowd sourcing, things that are going on with in the Web services space as people use the services business model to access and make sense out of information are creating new opportunities as well. And then we need to continue to lower the barriers of entry in emerging markets.

Information liberated from devices, so people focus a lot on search today because of the high profile of some of the search companies. We think search is going to continue to change. We think search is going to be done for you, not by you. So the services that you use you will use in a context where the service will know who you are, where you are, what your interests are, your personal preferences, and will be able to serve you up information that's relevant to you in the context that you are currently operating in. Big change in the way you currently access information and I think a fundamental opportunity for the IT industry.

The future of enterprise IT is going to continue to be this converged industry standard open architecture. You're seeing it happen across the industry today and we will have a hybrid environment. We'll have in-house, which is sort of the traditional model. We see increasingly people looking to outsourcing and other service-based business models to have better access to IT and obviously we are going to have to continue to be able to scale in the context of the population explosion I talked about earlier on.

So where does HP sit in all of this? This is our one slide strategy for those of you that were at our analyst conference I think you probably heard Mark talk about this. Again, it is a foundation of best-in-class cost structure, so we've done a lot of work over the last few years to optimize our cost structure. We started out four or five years ago trying to meet the benchmark. Our goal has always been to be the benchmark. We think we're there today and we are continuing to look at that. We think we've got some really exciting opportunities over the next two years in optimizing our supply chain.

We've got big supply chains in all three of our big businesses and today we are going to consolidate a lot of that and get even more leverage in our business cost model.

At the technology level, our strategy is pretty straightforward. Industry standard open architectures for servers, for storage, for networking, for PCs, and for printers and being able to continue to drive our scale and a different value proposition in each of those spaces. All of that needs to be managed so as this converges into a single architecture and you see a lot of that in our blade infrastructures or the pods or the data centers that we put out, things are converging together but at the same time there's a high, high degree of complexity in there. So we need to have the ability to run those systems through an automation dashboard which gives you the ability to provision and re-provision applications and workloads and deal with power and cooling management all through an automated set of tools. So again, our focus on management and automation software is a big part of the strategy.

And then finally, more and more people want access to that IT infrastructure through new business models, service-based business models, whether it's outsourcing or Web services-based platforms.

Looking out into the future, we are one of the few companies that still has a major corporate research lab and longer-term, these are the major themes that we think are important to us. Again you will see us focus more and more of our R&D activities on software and on new information management technologies, content transformation, digital commercial print, so immersive interaction. This gets into all of the stuff I talked about with personalized search, information analytics. So as we deal with the information explosion, end users' ability to make sense out of that information to better use it to make better business or personal decisions.



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Intelligent infrastructure, I don't like to use the word cloud, but new service-based business models for access to IT and cloud happens to be one. All of this needs to be done in the context of sustainability. So we've been out talking a lot about our capabilities and using IT and using our own infrastructure to improve our carbon footprint.

So a lot of interesting stuff going on in the labs. We have some long-term research. We are doing research with other partners in the industry in areas like nanotechnology and optical computing, which will fundamentally change computing architectures. And we're doing other research in things like crowd sourcing and social networking in the context of some of our mobility initiatives. So that is kind of what's going on in the labs.

And finally, we think IT is going to be the answer for changing the equation on a lot of the hard social problems that we have today. I mentioned this earlier but we think if you can for example use IT to address the energy problem, you can affect 98% of the issues. So today there's a lot of focus on IT as a carbon footprint issue, but if IT were perfect, that's only 2% of the problem. The other 98% of the problem is going to be addressed by using information technology to drive better decision-making around how people can improve their carbon footprint in those other sectors. And the same is true for healthcare and the same is true for education.

So with that, I just wanted to give you a little context. I know it was a fast flyby. Normally that's longer pitch, but I want to spend most of the time on Q&A. So I will turn it back over to Bill.

QUESTIONS AND ANSWERS

Bill Shope - *Credit Suisse - Analyst*

I wanted to dig into first your role in managing the R&D portfolio. A lot of HP's earnings growth over the past four to five years has been through very disciplined OpEx management and I think that has certainly been appreciated by investors. But we have also seen that the R&D as a percentage of revenue has declined pretty dramatically over the same time period and there are some concerns that perhaps HP may be cutting into muscle with its OpEx efficiency particularly on the R&D line.

I would imagine you have a different view on that and I would love to talk with you about what your view is in R&D efficiency and how much as a percentage of revenue is enough to maintain a technological lead over time?

Shane Robison - *Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer*

So I get this question a lot because everybody thinks about it in terms of R&D as a percent of revenue and it's unfortunately not that simple. So I think you have to look at it in a number of different dimensions, one of which is the mix of our product business. So as our PC business for example becomes a bigger part of the mix, we don't need as much R&D in that space. The same is true in our services business, so all of a sudden we've got very big components of our portfolio that if you compare them with pure plays are investing very heavily in R&D, and so the overall mix is going to change. So that's one dimension that you have to look at.

Secondly, we have done a lot of work on our R&D portfolio over the last four or five years and this is really important because we have transitioned our portfolio from what was roughly 70 -- a little over 70% hardware R&D to just the opposite, which is 70% software R&D. And that saves a lot because as you know, hardware is simply more expensive. It requires big CapEx, labs. We've moved to an industry standard strategy which eliminated the need for us to do microprocessor architecture development. Microprocessors alone cost you \$400 million to \$500 million a year just for the design team to deliver a complete microprocessor architecture.

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So our strategy is in that space to leverage Intel and AMD's R&D and to move ours to the systems level so we are doing things like Virtual Connect, which is a software strategy that sits on our servers, doing things like Insight Manager, which is a software platform that you manage our blade architecture with. So a lot of things have happened in the mix in the way we do R&D and software is just less expensive from an R&D point of view than hardware.

The other piece of it is we are a multinational company with 70% plus of our business outside the US. We're doing a lot of R&D inconsistent with that profile, so we've done a lot more to build up our R&D capabilities in India and Brazil. If you look at the recent acquisition with 3Com, one of the more exciting things about that is the H3C R&D capability that sits in a Guangzhou, which is a world-class R&D group that there is no compromise on the talent, the quality of the work they do, and they are much less expensive. So as we continue to take advantage of this sort of global technology community, we can continue to bring our costs down and increase our output.

Bill Shope - *Credit Suisse - Analyst*

Thanks. And I'm going to go ahead open it up to the audience so we can try and keep this interactive. Remember Shane has a broad view on all areas of technologies so we can go back and forth and if you don't have questions, I can go ahead and ask. We do have one back there.

Unidentified Audience Member

Thank you. I wonder if you could address -- I know you don't like the word cloud but if we look at virtualization in the cloud and the effects that that might have on your business, if you can kind of articulate the pluses and minuses there?

On the minus side, it seems like we are seeing fewer servers. We're seeing more consolidation in the industry with Cisco now in the blade business and Oracle, with Sun kind of turning against you. They are offering a whole integrated stack. I'm sure it's their strategy. So as you kind of look at this new environment, is that -- net-net is that going to be a positive or a negative do you think for HP?

Shane Robison - *Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer*

Well, let me separate two words, virtualization and cloud, because they are not the same. Virtualization is an important technology that helps us get better utilization out of the infrastructure in the data center. And we partner for a lot of the virtualization technology. We partner with the open-source community, we partner with Microsoft, who is coming on strong with a good virtualization technology. We obviously partner with VMware. We think that's an important thing.

I get a lot of questions about, well, doesn't that mean we are going to sell less servers? Unfortunately, I've been around a long time and when we introduced virtual memory in the PCs, we had the same question. It didn't happen. The same thing with virtual memory and virtual multi-threading and workstations and servers. The continued demand for increased capacity on the computing side is going to fuel growth. We're going to hopefully continue to come up with interesting technologies like virtualization which will help us improve the utilization of products that we have and the money we spend.

We think the more important piece of that is to focus on the layer above virtualization, which is automation and provisioning and the things that we do with Opsware that help people manage the data center at the next level up. It helps with the power and cooling management. It helps you with understanding how to deploy the application sufficiently and then you can take advantage of virtualization at the next level. So an important part of the strategy and an important part of next-generation data center architectures.

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Cloud computing I think is a different discussion. Many of the cloud computing infrastructures will have virtualization. They will have automation for sure, but cloud computing is a business model discussion and if you step back from it, it's really delivering IT through a services business model. So big opportunity for us because if you go out with an industry-standard server, industry-standard storage, industry-standard networking, integrated better value proposition that scales linearly, it's a very nice way to do these massively scale out data center architectures which will then be used to deliver a different business model which is usually a utility-based model for consuming compute storage and networking. It's just simply a change in the way people buy IT.

Consolidation in the industry, there's definitely been some because we are participating in some of that. I think at some level, this is just natural. The industries in the IT and data center space maturing in part of it and part of it is new and more innovative. I think we will continue to see some consolidation but this has been natural. It's been going on for a long time, so I don't see this as a spike in what's going on.

If you look over the last 10 years for us, we have gone through a number of big moves. The Compaq merger was the largest merger in IT. EDS was the largest merger in services. There's been a whole bunch of other medium-sized ones in the meantime. All the other major players in the industry are making moves and we are going to continue to see that. And at the same time, new smaller companies are growing up to be (technical difficulty) medium companies.

Unidentified Audience Member

A couple of questions. Regarding the goals you mentioned, one of them is touch-based interfaces. Hence, I'm wondering in the laptops area what is the timeframe regarding the introduction of touch-based screens?

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

I think you're going to see that very soon and we have been kind of leading with our touch smart technology on the desktop. We've got a new product which is more of an appliance for photos and other information displayed. It is a touch technology that we've migrated from our desktop and you will see more and more of that coming in the next generation. Windows 7 has a touch interface in it, so you're going to see touch more and more as part of the experience.

Unidentified Audience Member

Could we expect in 2010 or '11, '12 more?

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

Stay tuned.

Unidentified Audience Member

Sorry. The other question is can you talk about the threads from electronic prints on the printing business for you?

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

Sorry -- re-ask the question. I didn't understand what you are asking.

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Unidentified Audience Member

Yes, the electronic print device, electronic ink devices, there are quite a few coming in 2010. I am not talking about Amazon -- I'm not talking about all different devices especially for the corporate markets. They are in development phase. I was (technical difficulty) wondering if you can walk us about how you expect to (technical difficulty) this trend?

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

So it's interesting, I think the more people have access to information in more different ways, the more all the markets are going to grow. That's what we are seeing. We are seeing good growth in our printing business while at the same time we are there up (technical difficulty) on the product I just talked about, which are (technical difficulty) give you the ability to do electronic displays and photos and other information, lots of book readers out there. But at the high end of our printing business, we are out there cutting deals with book publishers, (technical difficulty) who on demand publish rather than printing a lot of books that don't ever get used. So there is part of (technical difficulty) from analog to digital, which plays right into (technical difficulty). We've got new services called MagCloud, which allows you to do customized magazine publishing on demand. So you don't have any of the waste that is normally a part of the magazine publishing business because you've moved to digital.

You might say, well, they are not (technical difficulty) guys or not but the digital guys are printing more than we were before.

Bill Shope - Credit Suisse - Analyst

Shane, as a (technical difficulty) follow-up on the previous consolidation question. I think it makes sense your explanation that it's part of a natural cycle particularly as the industry matures. But I do think that investors and myself feel like there is something of (technical difficulty) the time and the sense that you're seeing major long-term partners going directly against each other.

You are seeing software vendors jump deep into the hardware market, which has been surprising in what we've seen over the past decade. How do we think about things like HP's relationship with Cisco and the moves that everyone is making into each other's turf? How does that not change the strategy for Hewlett-Packard over time?

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

Well, let me answer it from the perspective of our strategy. We think that the work we've done in industry-standard servers to make that an industry standard architecture and become the worldwide leader in server technology and given the growth rates that we see there and the demand for those products, I think if we do that same thing in storage and last year and acquired some new technologies with IBRIX and with left hand we can build that platform out which is this new converged storage architecture which moves us beyond SAN and NAS and then do the same thing in networking, which is not only an open industry standard architecture, it's a different value proposition from a margin profile and can continue to really have an exciting growth opportunity for HP.

Yes, we are going to be not only (technical difficulty) be taking market share as we do that, because it's simply a really compelling value proposition, very strong in the edge of the network. We now with the 3Com acquisition will have very strong core network technologies and we will have a very comfortable (technical difficulty) complete enterprise data center product line. There is a high demand from our customers for that alternative.

So a lot of these relationships are going to change and we think from a portfolio point of view and from a business model point of view, we are positioned to really lead in that change.

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Bill Shope - *Credit Suisse - Analyst*

Any questions from the audience?

Unidentified Audience Member

Can you just discuss handheld mobile devices and I think you sort of have a glaring lack of presence there. How important is that in the whole scheme of tack? And is it -- how important is it to your broader strategy?

Shane Robison - *Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer*

So we think it's pretty important and it's an area of strategic discussion for us inside the company. But the one word you used with (technical difficulty) is worth a conversation is device. Because I think in this handheld space it is more and more going to be about the service that you are trying to access than the device that you are using to access that service. And the (technical difficulty) main thing for us whether it's a desktop, a notebook, a net, netbook or a handheld, you want to have a consistent services experience as you use those devices to access information and to communicate and collaborate.

So yes, we need to articulate more clearly our strategy in the handheld space. We obviously have an offering today but we are small in terms of market share. But more and more of what we are seeing is the services component is as important if not more important (technical difficulty) device. And that plays into our strength in the data center and our (technical difficulty) to host and serve up those services that people care about and that people want to access from multiple devices.

Because I'm sure most of you are like me and you don't just use one device. You've got a desktop and you've got a notebook and you've probably got either a netbook or a handheld. It would be very nice to have a very consistent experience across all of those. So we think about it (technical difficulty) mobility and what we can do with a comprehensive solution.

Unidentified Audience Member

Going back to your earlier comment about virtualization and cloud computing, what industry sector benefits most and where is the advantage for a program like that?

Shane Robison - *Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer*

I think every industry sector has the potential to benefit, so that's why when I talk about this, I typically talk about it as everything as a service as opposed to cloud computing. So take healthcare for example. If you want to set up an (technical difficulty) for healthcare where there's a service that gives people access to patient records through a hosted business model, I won't use the word cloud in this case, you can do that much more efficiently than you do today, where you are managing a very disparate set of uncoordinated databases.

So there's a lot of opportunity if you talk to many of our big customers, even in the enterprise spaces where they are doing mission-critical data, they are trying to figure out how to more completely (technical difficulty) the constituencies they care about access to that information, so whether it's employees or partners or customers, they want to be able to use a new business model which is much more of a services-based model for information access.

You can call that cloud. You can call it hosting. Primarily it's a different way to access information and we think the services piece of it is really important.

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Bill Shope - *Credit Suisse - Analyst*

Shane, I wanted to ask a question on virtualization as well, particularly when we look at traditional (technical difficulty) and utilizing virtualization for private clouds or simply just to consolidate. I appreciate that you said the compute demand elasticity sort of prevents the server industry from getting hurt.

But when I -- when we talk to customers, some companies talk about the customer conversations. Customers are looking to save money with virtualization in many cases but when we talk to companies in networking, software, servers, they all expect to make more money. So somewhere there is the disconnect and that is what I think leads to the (technical difficulty) conclusion where you have people who look at virtualization from a bearish lens (technical difficulty) who look at it from a bullish lens. But how do we sort of connect the two? Are customers really going to save money with virtualization and next-generation data centers or are they just going to compute more?

Shane Robison - *Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer*

So it's both. The reason I wanted to set up that initial data for the conversation is because when I talk to CIOs and I spend a lot of time now talking to them, they have a conflicting set of directives from (technical difficulty). I want better service levels at lower costs, so we are all living in this information explosion age and the content is going to continue to increase. It is doubling every 18 months. The computing power that it takes to process that content, especially as we move to rich (technical difficulty) deployments, whether it is sort of audio or video, is only going to increase and at the same time, you've got to bring your overall costs down. So while these things appear to be completely conflicting, they are not. We need to continue to increase the service levels and do that more efficiently, and that's what this is really about.

I think the push on increased service levels is going to be the real driver. Obviously we will have to continue to optimize and get better utilization out of the infrastructure. (technical difficulty) was flat (technical difficulty) but it's not. And the computing requirements especially -- I don't know about you guys, but most of us are using video now and all kinds of rich media on our desktops and all kinds of interactive, collaborative applications. All of that requires much more computing power, much more bandwidth, and we've got -- that is why industry-standard open architectures are so important. You've got to be able to (technical difficulty) and a value proposition that allows you to scale it without scaling the costs linearly with it. And that's what we are really trying to do.

Bill Shope - *Credit Suisse - Analyst*

Looking at your commentary on demographic trends, how can we tie that into sort of a longer-term view on PC penetration rates and what we should expect from the PC industry (technical difficulty) some of that work goes into the PSG group as well? There's a lot of theories out about a lot more penetration opportunities in emerging markets and also that we have increased opportunities on a per capita basis in developed markets. Have you done work in that arena and do you have any initial thoughts on that?

Shane Robison - *Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer*

Yes, we've done a lot of work on it and that one demographic that talked about the exploding middle class, that's where the PC comes from and that's worldwide, it's obviously more in emerging markets than in mature markets. But that's a huge opportunity for us because those are people who can afford to own a PC and really want one and they're going to have different types of PC requirements. I think that's a huge growth opportunity for us.

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Bill Shope - *Credit Suisse - Analyst*

Within that, you said obviously there is a large middle class that can't afford current PCs, so does that imply that a larger and larger portion of incremental PCs may be from these newer devices, maybe even smart phones? Is that how we should start to think about that?

Shane Robison - *Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer*

Well, I think there's going to be growth in all of those segments. If people are really simply accessing the Internet and surfing the Web, netbook is a very good device for doing that. If you don't have both hands free, you probably want a smart phone. If you want a richer experience where you require more computing power for things like gaming and other applications that are really popular today, you are going to need a little more powerful platform. You are going to need a notebook PC which has multimedia capabilities, good video and audio (technical difficulty) all of them and I think more and more most people are going to do that.

Many people, I would guess most of the people here have all three of those classes of device or at least two of them. I think that is consistent with what you will see out there.

Bill Shope - *Credit Suisse - Analyst*

Okay, I want to take the conversation back to the enterprise, if we could. You highlighted the opportunity for HP over time and it (technical difficulty) industry standardization into storage to bring it into networking, both of which tend to be the higher-margin categories. So clearly there is room for some standardization/commoditization. The push back on that I think if you look back at conversations with executives in the storage industry, some of which support or repeat these ideas, the difference between storage, the difference between networking storage and PCs and servers is that we don't have a standardized operating system necessarily available for those technologies. You don't have -- well you may have a standardized hardware architecture, it's difficult to truly commoditize or truly standardize them.

Is your statement more standardization on the hardware side and you are still going to be adding the value on the software side or how should we think about that?

Shane Robison - *Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer*

So yes and yes. Take switching. Ethernet is a standard and it's a standard that you can target. If you look at what we are doing today with a combination of ProCurve and what we are acquiring with 3Com, it gives us an enterprise class Ethernet standard switching architecture that is scalable, very high performance -- I will digress for a minute just because I assume people are a little curious about our 3Com acquisition.

We looked at everything in the industry from the point of view of how are we going to get an industry standard Ethernet platform for the data center that will scale along with our storage and server architectures? So we needed to be focused more on performance and scalability than on cost. Cost is important, but if you are not -- in the switching space, if you are not meeting the service levels, you are not going to get adopted.

So we did extensive testing on a range of different options for acquisitions. 3Com was one of them. We tested it inside of the company in three ways; we tested it in the ProCurve business, we tested it in our EDS infrastructure. We have some big data centers where we do a lot of architecting and systems testing. And then we tested it in our IT infrastructure. In our IT infrastructure it was an interesting test because many of the middle level IT people were -- how do I put this? -- biased towards the incumbent because they had been used to using it for many years. The testing was so compelling that the feedback we got from all three of those different independent tests was very positive.

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So people could see an improvement in performance by taking advantage of a clean new industry standard architecture that addressed Ethernet as a standard and gives us an alternative in the data center. We are going to do the same thing in storage that we have done in servers with what you are seeing with the IBRIX acquisition as we continue to grow out the storage architecture. So it's the next generation beyond SAN and NAS and it's more consistent with the cloud computing infrastructure that people are deploying in these massively scaled out data centers.

A big opportunity, some cost, but much of it is building towards these standards and doing it in a way that's scalable and delivers the service levels.

Unidentified Audience Member

Just a follow-up to that question. If in fact that's correct that the product from 3Com functions so well, why won't that product sell very, very well as you put it behind the full force of the Hewlett-Packard very trusted sales force on a global basis? Why won't we see the 3Com product line really explode on the positive side despite Mark Hurd's very cautious comments after the acquisition?

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

Well, I would never say anything to question my boss, but let me say we are really excited about that. And the only thing between us and the customer is our capacity to reach out and touch them. So if you look at what 3Com did in China as the H3C product group and this was before they had the 12,000 series out, they went to almost 50% market share in China. And you think, well, it's the China market. They are running the biggest banks in the world and those banks are focused like all banks on quality, reliability, scalability, and then finally cost.

3Com did not have a worldwide salesforce because they had obviously been through some transitions that you guys are all familiar with and they've taken all their investment and put it into this new product line, or series of product lines. And they have done a good job of selling it inside China but they didn't have the reach or the scale that HP has, so the answer to your question is I don't see any reason that we can't see an exciting growth opportunity. We just continue to reach out to the customers and make sure they understand.

This is a key part of the infrastructure, so people are going to be very careful about how they make these transitions. So we need to go out and we need to do things like proof of concepts. These are long sales cycles. We need very well trained technical teams that go out and demonstrate in the customer site that they can adopt these products with no compromise to the performance of their system. We will first demonstrate that in our own infrastructure, which is one of the biggest in the world. And I think that will give us a really nice proof point.

Unidentified Audience Member

Should we expect -- you know, it's unlikely -- do you feel like you don't need to make another large acquisition now that you have the key pieces covered for -- if you can just talk about you feel about the portfolio going forward?

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

I think our portfolio is not perfect, but it's in really good shape in many dimensions. We are anxious to get the 3Com acquisition closed. We think that's going to be important. The EDS acquisition was strategically important for the Company. It not only changed our Company, we think it changed the industry. And we think that gives us the scale and the capacity that we needed to go after business that we couldn't otherwise go after. So we feel really good about our portfolio.



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That doesn't mean we won't continue to look at things. We don't sit around and think about size. We tend to look at what do we need to accomplish our goal and what are the options out there or internally to invest in doing that? Right now our investment strategy for next year and the year beyond is to invest more in the salesforce so that we have more reach and we can cover more of the top 1000 top accounts with the portfolio that we have.

At the same time, I've got a team that's (technical difficulty) in the industry looking at the trends we talked about, looking at where we need to go. I think we've been consistent over the last few years. Services is important. I think to the managed (technical difficulty) space, the broad service capacity we're in good shape there. There may be some vertical areas where we have some opportunity.

Storage is clearly very important. We made a couple of critical acquisitions in the last year. There are some interesting opportunities there. I think networking, we are in relatively good shape, but even in that space there's pieces of the portfolio. So if you look at the way we've done acquisitions and the way we've integrated them, I think what you'll see is a very, very disciplined process for first looking at does it fit strategically and does it fill a need that our customer (technical difficulty) to us? Then we work on size, big versus small. It's just -- it is not the first thing that we spend time on. The nice thing is we have a strong enough balance sheet that we have the flexibility to do a range of different size deals.

So right now we are focusing (technical difficulty) the next phase of analyzing (technical difficulty) consistently look at things in the software area, things in the infrastructure area where in the smaller deals the way I think about them which may (technical difficulty) you guys like to think about them is more from an R&D perspective to (technical difficulty) deals don't move the needle on the revenue side but they can be really important in making the overall portfolio of the group.

Unidentified Audience Member

With regard to cloud computing, does HP intend to provide this service if needed service for instance hosting server or storage infrastructure? How does your service (multiple speakers)

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

This is a fantastic question because if I never say the word cloud computing and I do an outsourcing deal with a customer to take their data center off their hands and run it for them as a service, how is that different than cloud computing? We are talking about multiple different services business models for delivering access to IT infrastructure, so are we participating in that space? Absolutely, and we will -- will we continue to especially through our managed services and outsourcing business introduce next-generation data centers, service-based business models to our customers as (technical difficulty)? Absolutely.

Unidentified Audience Member

So you are (technical difficulty) customer?

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

Yes.

Unidentified Audience Member

How many relationships will you have in the company for instance if I move everything to the cloud? So I pay Software-as-a-Service, I pay infrastructure as a service, and what else?

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Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

Well, you've got storage as a service. You can manage print services so you can -- your entire print infrastructure, manage desktop services. You can basically decompose the information technology stack and do managed services at multiple levels. And we do all those. And they are growth businesses for us.

Unidentified Audience Member

So this effectively means that IT service companies become let's say the IT utility companies of the customers?

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

At some level, the business model is a utility-based business model. So if you think about a managed print services engagement, a big dimension of that is pay per page. You are not actually buying printers or supplies. You are buying pages. It's much more of a utility (technical difficulty)

Unidentified Audience Member

How (technical difficulty) let's say between (technical difficulty) my company, a software provider, the (technical difficulty) host of the hardware?

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

We're going to integrate a lot of people's solutions into the overall (technical difficulty) You notice we are not out there competing with SAP. We are not out there competing with Microsoft business apps. We are not competing with Oracle business apps. Those are all going to be part of the infrastructure that our customers are going to need to run their businesses. There's lots of other smaller players that are in there.

We are focused on the management software pieces which we think are important for us to optimize the utilization of the IT infrastructure that we (technical difficulty) provide and then going above the business applications on a lot of the analytics and strategic data access stuff that we think people will need as we continue to see this information explosion.

Unidentified Audience Member

Do have a clue how many companies already moved to the cloud?

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

I think a lot of companies are dabbling with the cloud, which is good news because they are testing out this business model to learn (technical difficulty) and how it will improve their performance of their own businesses. So I think you are seeing more of this. Many of it, people use the word internal clouds so many people are going down that path rather than an external cloud. But again, an internal cloud looks an awfully lot like an outsourcing deal.

Unidentified Audience Member

Thank you.

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Bill Shope - Credit Suisse - Analyst

Shane, going back to the opportunity in the enterprise, Hewlett is taking its large supply chain, its scale advantage, pushing into various areas like networking, but there is a flip side here. The largest networking vendors also entered one of your sweet spots, which is servers. And how do we think about where they are coming from, where the other side of this equation, what you have to watch out for? Where do you worry the most when you see new entrants into core areas like blade servers?

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

So, we are never complacent in competition and we try to never underestimate our competitors, some of which are sort of competitors one day and partners another day. But in that particular (technical difficulty) example, you look at the scale that we have with our (technical difficulty) and the work we've done in industry standards (technical difficulty) and the processes and the logistics that we know you have to have to have scale in that business and the advantage we have, we have 65 billion plus of supply chain. No one is even close to us.

You can imagine the leverage we get when we go out and buy components in that space. That's a very hard business model and as we start to bring industry standard networking into this equation (technical difficulty) that's up for us. Others in the industry if they start to bring from a margin perspective -- if they start to bring industry-standard servers into their equation, it doesn't look like upside to me from a margin perspective.

So there's some business equations here which I think are really hard. We know how hard the industry standard server business is. We've been in it a long time. We know how hard the storage business is. This business has to do is scale, logistics, your worldwide footprint, customer reach, and just optimizing all of those pieces. And that (technical difficulty) a long time. It's not something you just sort of declare you are going to do and (technical difficulty)

Bill Shope - Credit Suisse - Analyst

And on that point, one more time actually, if we look back about eight or nine years ago, a few articles in the Wall Street Journal about one of your most more commodity competitors that was bound to dive into networking, commoditize Cisco, eventually going to go after EMC. In fact, I think the quote was EMC was the excess margin corporation. These threats of commoditization in these sectors 10 years later didn't actually occur, so what's changed technologically (technical difficulty) in the industry that is allowing this standardization (technical difficulty) from PC servers and into areas like networking and storage?

Shane Robison - Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer

So I think there's multiple changes, one of which was what I talked about in the business model, which says there's going to be traditional IT stacks were people will continue to run business applications on the architectures that they have for a while. That is going to continue on for a long time. These transitions take years and years, but the interesting thing about this more converged architecture -- we call ours matrix and there's some interesting things that we can do as we bring these things together in blade architectures -- is for these new -- I will use the word to cloud -- (technical difficulty) scale out data center architectures and the applications that run on that, they marry very well with these linear rescalable architectures, so you can decompose them. You can provision that application and scale it the infrastructure underneath it at the same time.

It's a very different world than the traditional application world (technical difficulty) where some of the competitors you mentioned have stacks in place and those will be there for a long time. We think we're going to have a mix. We're going to have a hybrid, which is why our management software strategy is very heterogeneous. We want to be able to manage everybody's system in the context (technical difficulty) data center where we will have the traditional stacks and the next-generation stacks.

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But my final comment is a lot of the growth is in these new architectures so that's why we are focused there.

Bill Shope - *Credit Suisse - Analyst*

Any questions from the audience?

Unidentified Audience Member

What do you see as far as challenges on the cloud computing side regarding security?

Shane Robison - *Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer*

So security is a really good technical challenge for all of us. In the cloud (technical difficulty) you look at some of the more cloud-based services that are out there, the consumers have a different level of security requirement than most of the enterprises do. So that part seems to be working reasonably well.

I think on the enterprise side we're going to continue to need to build in those security capabilities and that's partially what is driving the interest in internal clouds as opposed to external clouds. Because part of that (technical difficulty) the amount of control you have over the points of access to that system. And the more control you have, the more secure you are going to be.

One of the really exciting things we got with the 3Com acquisition is a company called TippingPoint, which is one of the leaders in security in this space. That is -- to one of the earlier questions -- one of the areas where we think we need to continue to look as we build out our portfolio.

But you're going to see a combination -- on the enterprise side, I think you're going to see continued growth of internal clouds and a buildout of the security capabilities before you see that space completely open up (technical difficulty) the cloud model.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Shane Robison - *Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer*

Okay, I knew I was going to get this one. I don't think we're going to know until that closes what Oracle's plans are. We have a very (technical difficulty) we have had a long-term relationship with Oracle.

We continue to see that relationship grow and I talk to Safra all the time. I don't see this as a scary as many people in the industry see it and I think we need to wait and see what Larry really is planning to do with Sun once that deal closes.

There's an opportunity for us to continue to partner. They are very interested in making sure that they can (technical difficulty) vendor software on top of our infrastructure. So this is a mutually beneficial relationship and what happens in the server space will be TBD.

An interesting fact, if you look at OpenSolaris, there's more (technical difficulty) Solaris downloaded onto ProLiance than any other platform and that is continuing to grow faster than anybody else. So for our x86 strategy, having Oracle as a partner works just fine.

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If you are talking about proprietary industry-standard architectures like SPARC, we (technical difficulty) declared our position. We have said those days are over, which is why we have gone to industry-standard architectures leveraging other people's R&D. Maybe we'll want to do something different. We will see.

Bill Shope - *Credit Suisse - Analyst*

Any final questions? We have time for one more question. Up front again?

Unidentified Audience Member

Another cloud question. How long probably will it take to move, let's say, a midsized company which has its (technical difficulty) IT if it wants to move completely to the cloud? What about the timeframe?

Shane Robison - *Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer*

Think they are moving today and I think they will move over the next five to 10 years. We are seeing midsized companies actively engaged in outsourcing discussions, which are equivalent to internal cloud (technical difficulty).

Unidentified Audience Member

So it's more a sort of process?

Shane Robison - *Hewlett-Packard Company - EVP & Chief Strategy and Technology Officer*

Yes, all of these things are (technical difficulty) processes that take some time. You've got to prove that it works and then get people to adopt it at a (technical difficulty) cycle that's consistent with their business requirements. But if you look at the pipeline for our services business, it's very exciting and it's a mix of businesses.

Bill Shope - *Credit Suisse - Analyst*

Okay. Shane, thank you very much for your time. It's very helpful for all of us and thank you all for attending.

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