



## CORPORATE PARTICIPANTS

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Hewlett-Packard - EVP, CFO

# **PRESENTATION**

Ben Reitzes - Barclays Capital - Analyst/Moderator

Good morning. It's great to see everyone again here at the conference. I am Ben Reitzes, IT hardware analyst. We are delighted to kick off the second day again. Yesterday, we were lucky enough to have IBM and today we have the other Goliath in my group, Hewlett-Packard. We are delighted to have EVP and CFO Cathie Lesjak here with us today, who is going to do a chat with us.

A couple of things I wanted to just mention is we are going to have a breakout for this session at 8.20 AM in the Pavilion room. I told them, by the way, to turn up the heat in here. Hopefully it is warmer in the Pavilion room but don't get your hopes up after this. After this immediately as well, we are going to have our second keynote of the morning with Corning, so we are excited to have two great keynotes this morning. So Cathie, thank you for joining us.

Cathie Lesjak - Hewlett-Packard - EVP, CFO

Thank you, Ben. It's great to be here.

Ben Reitzes - Barclays Capital - Analyst/Moderator

It's great to have you.

We wanted to start out with a question about HP. You just raised your guidance. You had an analyst day, a nice analyst day and then just a few months later you raised your guidance again. I was wondering what you were seeing that gave you enough confidence to raise your revenue outlook a little and your EPS for 2010.

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

Yes. Ben, we are in a very different place than we were, frankly, a year ago. If you think about where we were a year ago, we had folks -- we had demand slumping, we had folks delaying purchases, we had a currency headwind, and we were just facing a pretty significant economic decline.

Today, we are in just the opposite situation. We have -- obviously demand is starting to stabilize. We are definitely leaner on our channel inventories, which certainly helps. And we have a bit of a currency tailwind.

Folks are sitting down today looking at their budget and they are realizing that their infrastructure is basically a year older. They are trying to make the trade-off of can I really put off upgrading my infrastructure another year, or do I actually need to do some upgrades? We think obviously folks will do some upgrades. So it's a very different environment kind of in a broad sense.

But also, if you really look at how we finished Q4, really some positive proof points -- great signings in our services business. Signings that were very strong for a quarter but drove a very strong number for the whole year as well, so good proof points there, good margin expansion; printer demand turning up; continued share gains in PCs and servers, and in the server space,



our G6 ProLiant product with a very powerful value proposition, driving growth in that space. So just overall feeling a much more positive tone in the market. Still some concerns in Europe, but in general, a more positive tone in other places.

## Ben Reitzes - Barclays Capital - Analyst/Moderator

Well, to that end, there's a story out about the vacations this year. Last year, I believe you have forced shutdown maybe to cut costs. This year it's back to work, and doesn't seem -- it would seem that means that customers are willing to spend. You talked about budgets. Does making people work in your enterprise business mean that there's a budget flush or that things are -- how would you portray the news?

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

I think the news is pretty positive. I think that there is a sense, at least within our organization, that there is a bit of a budget flush going on. We want to obviously be there to take advantage of it. We've got a great set of value propositions across our portfolio, so I would take it as positive news.

# Ben Reitzes - Barclays Capital - Analyst/Moderator

Well, great. I guess to that end, why don't we talk a little bit about EDS now that we have over a year and some perspective? You talked about signings growth. How would you put it in perspective, and does it seem like now you are ready to grow it?

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

I think that's a fair assessment. We talk all the time at HP and with you all about the fact that there are cost savings initiatives, and the reason to do cost savings initiatives, some is to drop to the bottom line but a lot of it is actually to help enable growth. So there are two hands; you've got to do this and you've got to do this. The signings are the proof point that we are making, getting momentum on the growth side, that the value proposition that we bring to the market around services and what we're able to do from a cost perspective that allows us to be competitive is really resonating well with customers.

On the cost-saving side, we are, frankly, ahead of our synergies. We expected that our workforce reduction would only be about half done at this point when we talked to you all about a year ago in September, and we are ahead of that plan. We are almost kind of in a three-quarter space.

Our synergies are ahead of plan. We basically realized about \$1 billion of the \$3 billion that we've been talking about in the EDS space and you really saw it in the services space; margins continued to improve, so we ended Q4 basically at 16.2%, which was a very solid number for a services business.

I think the other really big proof point is that, a year ago, we basically said timeless for services from an [odd-profit] perspective; it would be 13% to 15%. Timeless is kind of what we think is a worthy aspirational goal to get to. This year, just a year later, we basically say in 2010 that we, at our securities analyst meeting, that we should be able to do 15% to 17%. So great progress, great proof point that the acquisition was strategic and everything we had hoped it would be.

# Ben Reitzes - Barclays Capital - Analyst/Moderator

That's great.

I wanted to move into your data center strategy a little bit. Maybe there's a way that you can weave EDS into this as well, but now you are buying 3Com.



# Cathie Lesjak - Hewlett-Packard - EVP, CFO

Yes.

# Ben Reitzes - Barclays Capital - Analyst/Moderator

I wanted to just hear what your assessment was for what that means to your long-term plans in the data center, and where you are evolving there.

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

Well, let's start first with kind of what our plans are in the data center. As we've been talking to you all about what the strategies in the data center, it's really around the next-generation data center is really about converged infrastructure. It's basically having industry-standard componentry across server, storage, networking and PC, and then differentiating that industry-standard platform with embedded software that delivers a value proposition, and then wrapping that and managing it with our management software stack and delivering it and servicing it kind of any way you want it, either in-house or in the cloud or on an outsourced services basis. So we think we've got the complete set of assets there.

One of the pieces that we were missing was really having IP in the core data center. We were hearing from customers that they really loved our ProCurve LAN edge product but they really wanted us to be -- have a core data center product in order to give them choice. They wanted alternatives in that space. So that kind of set for us started the -- I'm sorry, the data center strategy, and then what we were hearing from customers said to us, "Okay, strategically really should own some IP in that core data center." We started looking at what available IP that was out there, and we looked at every company you can imagine, we looked at. I will say that, on 3Com, we probably started a bit reluctantly, because it wasn't clear to us at that point exactly what the value proposition was in 3Com. But as we went through the process, as we got our IT group to basically run a proof of concept in their own data -- in our data center and we had EDS also look at it, that it became really clear to us that the technology in 3Com was best in class, that it was newer technology and that it could deliver a very significant value proposition for us in the core data center. It just came together that it was a little bit like a rifle shot. You could buy exactly what you needed, and you didn't get a lot of other stuff around it with 3Com. So it's just we are very excited about this acquisition. We think it's really going to help throughout the data center strategy, as well as give customers choice.

# Ben Reitzes - Barclays Capital - Analyst/Moderator

But it doesn't seem like we've heard the last from you in the data center. You have David Donatelli who now is going to be unleashed in storage, correct? And then --

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

We're very excited about that, too. January 2, guys.

# Ben Reitzes - Barclays Capital - Analyst/Moderator

January 2, okay, not too long. Then obviously in the software, do you think we will hear a lot more from you in software and storage going forward?



# Cathie Lesjak - Hewlett-Packard - EVP, CFO

I do think you will. If you think about that strategy, it really -- the way we are going to differentiate the value proposition aside from the services that we are going to be able to wrap around it is really all about software, because you want to take that industry-standard platform and embed key IP that gives you a differentiation.

Let me give you the example around G6 ProLiant product, Nehalem. It's on industry-standard components, but we have put our own IP, IP in around inside dynamics that allows us to manage a virtual and a physical world better; virtual connects embedded in it that allows us to reduce the number of ports you need, from a networking perspective, and really fundamental power and cooling management. So it's those types of things that give us a competitive advantage in the market and it's really about software, and that we will have unique software then in that, in the service space, in the storage space and in the networking space. That's the other benefit actually of 3Com, is that they are also built on industry-standard components.

# Ben Reitzes - Barclays Capital - Analyst/Moderator

Got it. I wanted to switch gears to PCs. Great performance, especially relative to some of your largest competitors of late. I guess I wanted to hear whether you felt it was sustainable in the PCs for you to extend this lead. The recent data from IDC and others is that you guys are the number one enterprise PC company in the United States with 40% share, while Dell is only 35%, and you've gained 12 points year-over-year in share in large business PCs. Does that mean that you guys are the play on Windows 7 if it takes off in the enterprise, and what are your views there?

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

I think we're very well-positioned to take advantage, clearly, of any corporate refresh. We've been focused on that through 2009, so we did our belt-tightening, we did continue to execute on our cost initiatives. But the other thing we did, when we looked to 2010 and beyond and said, what do we really need to do to really set ourselves up the best? One of the things is really building out on, especially in the US, the position both in large enterprise but also in SMB, so that we would be very well-positioned for a refresh.

We do think that Win 7 will drive somewhat of the refresh, especially for companies that have not fully upgraded into this step. We think we are just very well-positioned and have a position that maybe some folks don't fully -- didn't fully understand until you talked about the fact that we have 40% share now in US enterprise.

# Ben Reitzes - Barclays Capital - Analyst/Moderator

Yes, I wanted to talk a little bit more about that. I think people understand you're gaining share in general because consumers are buying notebooks, using them for corporate, and year-end Notebook brand was good. But why are you gaining share in US enterprise? I mean, people think of another competitor as the leader there, and you've gained 12 points a share year-over-year. Why are you doing so well there? Are you pricing more aggressively, or is the value proposition really ringing true?

# Cathie Lesjak - Hewlett-Packard - EVP, CFO

I think there's a number of different reasons for that. I think that we've got a strong product lineup with good value proposition. We have been working on our cost structure, which allows us to be more competitive in the market without sacrificing margins and still coming in at the margins that we've been talking about in the PC, which are good margins for our PC business.

I also think that we are more and more leveraging our services play that, again that sticky relationship when you enter into a services relationship, especially in the ITO space, that then will pull with it PCs as well as servers, as well as software. But it just



kind of pulls it all together. That's giving us a different position with large enterprise customers, and it's helping them to also understand our value proposition.

# Ben Reitzes - Barclays Capital - Analyst/Moderator

I wanted to shift gears to IPG, printing business of late. You've had shortages, actually. There was the weakness in demand, and then it seems that it was exacerbated by your own shortages.

It would seem like there's a lot of pent-up demand there simply alleviating the shortages and whatnot. But can you set the table for us for where we are on IPG heading into this recovery that you feel better about?

# Cathie Lesjak - Hewlett-Packard - EVP, CFO

Sure. So we are definitely seeing an uptick in demand in printers, and of course we've got those ink products as well as laser products. We've had some shortages as well on the ink side because the pickup in demand and the attractiveness of our ink in the office products caught us a bit by surprise. It came sooner than we had anticipated. We are through that on the ink side.

Ben Reitzes - Barclays Capital - Analyst/Moderator

It's all hardware?

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

It's hardware, yes; it's all hardware. We are through that on the ink side.

On the laser side, we are building. We have not gotten into the volume yet that we want. We expect to be through the shortages by the end of Q1. It's really that pent-up demand that is enabling us to drive double-digit growth in unit placements in Q1. We think that, again, longer-term demand is picking up as well in that space. The beauty in that of course is that we make those unit placements, and those are unit placements that are either consumer unit placements, ink in the office or commercial. So also retail photo kiosks — our position in retail photo kiosks is improving. We won a very large retailer that's going to mean thousands of retail photo kiosks are going to get installed over the next year. We are also winning well in managed print services, kind of bringing our services and our hardware into the picture there, and doing well in terms of earnings share, gaining share in Indigo.

The beauty in those three -- managed print services, retail photo kiosks and Indigo -- is that, when their supplies connect, it is 100% Hewlett-Packard-supplies. The other beauty in retail photo kiosks and the Indigo is when those units get placed, they stay in place seven to ten years. So we are setting ourselves up for a very nice annuity business, and that's going well.

Our multi-function printers are also growing well. We've gained share in that space. So things are really starting to come together on the IPG front.

One of the things that is interesting is that sometimes a really tough year is actually good for our business. We feel that way about IPG. The need to get more disciplined, more operational focus in that business has really helped us in 2009 to exit the year in a much stronger position from an overall operational perspective.



# Ben Reitzes - Barclays Capital - Analyst/Moderator

The guidance you have for margins for that business is going from 18%-ish down to 15% to 17%. It would just seem that, in order for that to be accurate, you have to get quite a lot of unit growth. Is that math -- is quite a lot of unit growth what we should see?

# Cathie Lesjak - Hewlett-Packard - EVP, CFO

There is strong unit growth. We told you for Q1, it's double-digit growth. Again, the units come in a variety of flavors, but net-net we do expect to have a strong unit growth year.

# Ben Reitzes - Barclays Capital - Analyst/Moderator

Great. I wanted to also talk about your overall I guess gross margin. As you evolve towards this data center strategy and what you're trying to achieve in software, it would seem that your gross margin vis- -vis your closest competitor in IBM is almost half of IBM's gross margin, maybe give or take. Granted, you have PCs pulling that down. But is there an overall view that, as you accomplish what you need to in the data center, that, over time, there is a structural shift in HP's gross margin either way? You are at 23% and change now, and is there a way to think about that as you move up the stack?

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

So, I think you can think about it in basically three dimensions. The first one is that we've still got a lot of cost savings initiatives that — and many of them are targeted at the gross margin line. Whether that's in technology services where we are looking to do more automation in the kind of break-fix maintenance space, there's obviously still delivery efficiencies that we're working on, synergies that we are getting in the EDS space that are also predominantly gross-margin driven, so if you think about it in that context as this kind of rate dimension of us continuing to increase the margins just from our cost initiatives.

Then there's also the mix effect, which is I think one of the things you were kind of alluding to, the fact that we're going to get more and more software, networking, services. That all has the kind of upward bias to margins, both at the gross margin line in many cases, as well at the operating profit line. So, there's that upward bias.

Then finally, if you look at 2009, the deleveraging effect of it, just economies of scale that we incurred in the enterprise server and storage business, was roughly \$1 billion. That comes back as growth comes back because you're going to get that operating leverage. So you've kind of got those three things that obviously are putting an upward bias on gross margin into the future.

# Ben Reitzes - Barclays Capital - Analyst/Moderator

I wanted to shift gears to cash. Last quarter, you started to buy back more stock. Share count, though, is still, because of the stock price has improved, the share count probably isn't moving too much. But just in general what are your plans now with cash? You obviously have 3Com coming up, which is going to cost you a couple of billion-plus. What are your plans as things recover here in terms of share repurchase, balancing acquisitions?

# Cathie Lesjak - Hewlett-Packard - EVP, CFO

Our capital priorities have really not changed. Our number one priority is investing in the business. We think about investing in the business in a number of different flavors that -- organic investments, whether that is in R&D or in CapEx -- that allows us to save more or CapEx that allows us to grow when you think about kind of the services space or the operating lease space. It's also inorganic.



It's very clear that M&A will -- has obviously played a big role in HP's strategy and it will continue to play a role in HP's strategy.

Then the next priority has been basically to buy back shares and make sure that we at a minimum cover the dilution that comes from employee benefit plans; and then to buy opportunistically, kind of on a quarter-to-quarter basis. And then the final priority is basically to pay our annual dividend.

#### Ben Reitzes - Barclays Capital - Analyst/Moderator

Got it. I'm going to ask one more question and then I think we should have plenty from the crowd and then, if not, I will keep going.

Let's just go back to the environment. We talked about how you just raised and how there's some potential budget flushes. Previously, you guys had mentioned that the Americas was a little better, in Europe you haven't quite seen but you did sensationally in China. So if you can kind of talk about the regions for us, maybe recap your views on the Americas and Europe, but then talk about what's going on in China, because you really are doing well there.

# Cathie Lesjak - Hewlett-Packard - EVP, CFO

In Q4, we did see good improvement in the US. We also, as you mentioned, had a very strong China, I mean very significant growth in China. If you look in the US, the improvement was really across all of our segments, our business segments. Then from a customer segment perspective, it was more consumer than commercial, although in general things were a bit better even in commercial.

In China, at the HP level -- and China is a big country for us now. In fact, we still put it in the category of emerging market but at some fundamental level, as large as it is, it is really an emerged market. We grew in excess of 20% underneath that, PCs grew more than 40%, so just tremendous traction in China for us. There's just a lot of growth opportunity in that space.

We have, over the last few years, very well positioned ourselves in China, both for PCs clearly but also, frankly, for Superdome. Superdomes in our ESS space do particularly well and had a particularly strong Q3 and Q4 in China, so a pretty strong position in China.

The area where we are still -- I wouldn't say we are concerned because EMEA has stabilized, but it stabilized at a pretty low level. Really, to get more confident about them, the global macro economy, we need to see some improvement in EMEA. If you look at EMEA, some countries did better than others, but there's really no kind of trend even at a country level that says things are getting better. They are just kind of bouncing around at the low end.

# Ben Reitzes - Barclays Capital - Analyst/Moderator

Going back to China, with 3Com having half their sales or so in China, is there more of a play there in China you think, more synergy on that front?

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

I think that having that kind of base that we are going to get with 3Com in China is obviously going to continue to build out the base we already have in China. We are the only major OEM that has got a manufacturing plant in western China. That's our -- we've got our PC factory there.



We've got our -- before 3Com, we've got R&D engineers in China. We've got labs in China. So we've got a lot of different things going on in China. 3Com helps kind of build that out and solidify it. We are absolutely thrilled to get such a strong R&D base with the 3Com acquisition in China. We're looking forward to continue to build that out.

Ben Reitzes - Barclays Capital - Analyst/Moderator

Great. So let's see if there are any questions out here, and then if there aren't and it slows down, I will just keep going. I see one right here.

## **OUESTIONS AND ANSWERS**

#### **Unidentified Audience Member**

Can you just talk about the timing of the 3Com deal, how that's playing out, and whether or not you guys can initiate a commercial relationship with them before the closing?

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

Sure. Our expectation now is that 3Com will close in our fiscal Q2 and probably early in our fiscal Q2. Things are going well.

In terms of engaging in a commercial relationship with 3Com before the close, because it is coming so quickly, it's not likely that we are going to do anything significant in that space, but we are very much engaged with 3Com on the integration. There are regular meetings in terms of setting ourselves up so that, when it closes, we can move immediately to building out the salesforce. We need a lot more networking specialists to really run the play.

We also are already talking to customers, especially in the US, about proofs of concept because, in 2010, the way we are going to really start to move forward with this business is to get important large proofs of concept put in place. We are already getting excitement from some of our major enterprise customers in the US to be some of the first ones to do that. So laying that kind of groundwork and getting kind of the integration plans put in place is going to allow us to really hit the ground running.

Ben Reitzes - Barclays Capital - Analyst/Moderator

Anything else? There's one right here in the middle.

# **Unidentified Audience Member**

Since you brought it up earlier in the conversation the budget flush that you're seeing. Is that a worldwide budget flush, or -- a local US budget flush?

# Cathie Lesjak - Hewlett-Packard - EVP, CFO

So, what I was really talking about was the US. The whole discussion about asking folks to basically not take as much of a vacation as they had been planning at the year-end was a US phenomenon.



Ben Reitzes - Barclays Capital - Analyst/Moderator

I think I can still take my vacation at Barclays.

Cathie Lesjak - Hewlett-Packard - EVP, CFO

You can. But you have my cell phone if anything happens.

Ben Reitzes - Barclays Capital - Analyst/Moderator

Yes, I will try to close some deals for you though, from the beach.

Cathie Lesjak - Hewlett-Packard - EVP, CFO

Yes, that would be good.

Ben Reitzes - Barclays Capital - Analyst/Moderator

Anything else?

I wanted to ask you about there has been a -- we were talking about budget flush as more of an enterprise comment.

On the consumer side, which is about a third of your business or maybe a little give or take, there has been talk about restocking in that there seems to be some disagreement in the marketplace about where inventories may be. The supply chain, though, is actually looking pretty tight, component costs as well as order trends into next quarter. So where do you think inventories are on the consumer level if you look across your businesses, maybe not only your owned inventory but what's out there?

Cathie Lesjak - Hewlett-Packard - EVP, CFO

We feel in pretty good shape from an inventory perspective.

From a commodities and supplies perspective, you know, we've run this strategy for a number of years around strategic buys. Strategic buys in our owned inventory that help us assure supply, and in other situations basically get very attractive pricing. So we continue to do that.

The other thing interesting for HP in tight supply environments -- and this isn't much of a surprise but if you think about a recession in which folks basically take capacity out of the market and then things get better and things get tight. HP has done a really good job of managing in those types of environments. The position we have with suppliers as being their number one customer in most cases, the strategic buys that we do -- we have typically gained more share in tight supply environments than in non-tight supply environments. So we have -- we believe we have a competitive advantage and we are very well situated for this type of environment.

Ben Reitzes - Barclays Capital - Analyst/Moderator

How about on the retail level with regard to your consumer sales and what you hear from your retail partners? Do you feel like they are in pretty good position?



# Cathie Lesjak - Hewlett-Packard - EVP, CFO

We do. We feel, at least from an HP product perspective, we feel like we've got what we need in the retail channel and that we are well situated.

## Ben Reitzes - Barclays Capital - Analyst/Moderator

Is there anything in particular that you feel you are particularly well positioned to be more aggressive on price and really go after it into this uptick in demand as you look across your portfolio?

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

Again, it goes back to kind of our philosophy of getting the costs out so that you can grow. We've got a number of cost initiatives that are throughout the Company, not just in PCs but also in PCs, that will enable us to be, again, more competitive from a price perspective at the same time delivering the margins. Of course, we will pick our spots as to where we want to kind of place those bets, but are not -- are pretty comfortable with where we are and the breadth of our portfolio and the value proposition that we bring.

## Ben Reitzes - Barclays Capital - Analyst/Moderator

I wanted to go back to EDS. By the way, if you have a question, raise your hand and I'll see you.

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

Actually, there's one over there.

### Ben Reitzes - Barclays Capital - Analyst/Moderator

Okay. Sorry, let me finish this one. With regard to EDS, last quarter, you had quite a good pull-through on your software business.

We were talking to IBM yesterday and they were talking about pulling through a lot of software through theirs. How do you feel that is evolving through EDS? Are you starting to see the software pull-through really take place? Is there any other leveraging of your R&D that you can put into practical examples for us through EDS?

# Cathie Lesjak - Hewlett-Packard - EVP, CFO

So EDS -- the strategic proposition when we bought EDS was to improve our position in the enterprise and to enable that sticky relationship to pull through the entire portfolio, not just software but software, networking, servers, PCs, printers. We have won a number of deals, especially in Q4, where the deal was basically A to Z Hewlett-Packard products. There were Hewlett-Packard servers, Hewlett-Packard printers, Hewlett-Packard networking, Hewlett-Packard software. That really is one of the main channels that will help us pull through our entire portfolio and deliver a lot of value to the customer as well as to HP. It's also part of the reason why we are kind of moving up the stack, because that pulls through some of the products that have higher margins.

Ben Reitzes - Barclays Capital - Analyst/Moderator

A question?



## **Unidentified Audience Member**

Cathie, you were mentioning Nehalem as one of the products, one of the competitive (inaudible) that helps your product line in the server arena. You talked about the differentiation that you have.

Could you just give us a sense of to what extent you think that Nehalem, in your conversations with your server colleagues, really is something that is a bit of a catalyst for the market, or how material do you see that being?

Then secondly, you -- in the component side, could you just give us some sense of how you view memory as an area? That seems to have (inaudible) price appreciation and tight (inaudible).

And then lastly --

# Cathie Lesjak - Hewlett-Packard - EVP, CFO

I really need a pen to write these all down. Why don't I answer the first two and then you can ask your third, because I won't remember all of them.

For Nehalem, is it a catalyst for the market? That is something that we are still not sure of. It is definitely a catalyst for Hewlett-Packard. Our G6 ProLiant product, which is our Nehalem product, has this unique IT in it that makes it a very strong -- have a very strong value proposition. As an example, our G6, if you upgrade from our G5 to our G6, the return -- you get a full payback, a good ROI in a year. If you upgrade from our G4 to our G6, you get a payback and good ROI in a quarter. If you upgrade G1, 2 or 3 -- and there's still plenty of folks that still have G1s, 2s and 3s -- you can get the payback in a month.

Those types of paybacks are incredibly attractive to CIOs and I can tell you CFOs. Anything that can pay back within a year has a very high -- goes very high on the list of things they are interested in doing.

So we know that is driving our success in the market. Exactly whether or not it's going to drive, kind of kick off a server refresh sooner rather than later, we are going to wait and see but certainly from HP's perspective, it is really helping.

Your second question around kind of component pricing, again what we've talked about and we talked about on our earnings call is that we have -- throughout Q4 we did see an uptick in pricing. We do think that DRAM will continue to have some pressure, but that HP is, again, as I was saying earlier, very well positioned to take advantage of that and actually turn it into a share-gaining opportunity. So, we are pretty comfortable that we have that advantage.

Okay, and your third question?

### **Unidentified Audience Member**

Just lastly, from a -- just a broader, longer-term question just in observing the retail channel. There seems to be, in the mainstream of the notebook market, a lot of price compression and the sweet spot seems to have moved to \$2.50 to \$8.50 range.

As you look forward, do you see a lot of areas where you can compress the componentry that is in your systems in order to preserve your margin longer-term?



# Cathie Lesjak - Hewlett-Packard - EVP, CFO

To be honest with you, I am probably not the best person to answer the question on whether or not we can compress our componentry. I guess the best way to think about it, at least the way I think about it, is that, in 2009, what we saw, because of the tough economic environment, was the fact that folks within kind of each category moved to a lower end, a lower-end product so a less richly configured product.

It's not like everything shifted to minis, but within each category, it did shift to a lower-end product. We've assumed that doesn't improve in 2010 in the guidance that we provided. We still will be delivering margins that we talked about at our securities analyst meeting in September of 4.5% to 5%.

So I don't know technically whether or not there's something going on in terms of the compression within the product, but I can tell you that we are doing a good job of managing our costs, getting cost reductions in there and then driving the right value proposition in the market.

Ben Reitzes - Barclays Capital - Analyst/Moderator

We have time for a couple more questions if there is --

Well, we've covered a lot of ground; we certainly have. Is there anything that you would want to say in summary with regard to life as we head into 2010?

Cathie Lesjak - Hewlett-Packard - EVP, CFO

Life, huh?

**Ben Reitzes** - Barclays Capital - Analyst/Moderator

Yes.

Cathie Lesjak - Hewlett-Packard - EVP, CFO

As you know, I will keep my remarks more to Hewlett-Packard.

Ben Reitzes - Barclays Capital - Analyst/Moderator

Okay.

Cathie Lesjak - Hewlett-Packard - EVP, CFO

The one thing -- actually we do have a question back here and then I will do my closing.

# **Unidentified Audience Member**

I apologize if this was asked earlier, but could you speak a little bit about Cisco as a competitor and their entrance into your market and the 3Com acquisition was just -- you know, give us a little bit of perspective on that?



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

I guess the best thing to say is that we have been competing with Cisco for quite a while. We have been competing in the LAN/edge part of the networking space with ProCurve and, frankly, doing very well, basically gaining share over quite some time now against Cisco in the LAN/edge product.

Obviously, 3Com gives us the opportunity to go into the core data center and -- with a very strong product offering with 3Com. So I expect we're going to continue to compete and compete effectively with Cisco on that side of the house.

The beauty for HP on that side of the house is those are accretive margins to our portfolio. Obviously, everyone is aware of Cisco trying to get into the server space with a blades product, which obviously can have a different margin profile.

The other thing I would tell you is that, in networking, folks are looking for more alternatives in networking. There are not a lot of people looking for more alternatives in servers. So again, I would say pretty happy with HP's hand in this particular area.

Ben Reitzes - Barclays Capital - Analyst/Moderator

I think you said you like your margins that are 23%, 24% going towards Cisco's rather than Cisco's going towards yours.

Cathie Lesjak - Hewlett-Packard - EVP, CFO

I think that's a fair summary of what I said. Yes.

Ben Reitzes - Barclays Capital - Analyst/Moderator

Got it. Anything else out there? Don't be shy.

Well, anyway, in summary, we have covered a lot of ground. How about anything you would like to say to wrap up?

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

I want to leave everybody with kind of one word to remember about this fireside chat, and that's confidence. We have confidence that we can continue to expand our market leadership, and we have that confidence because we've got a broad portfolio, we've got good IP in hardware, in software, and in services, and great services capabilities. We've got the innovation that we need that drives that IP. We've got the global reach. Finally, we've got the scale allows us to compete very effectively.

We also have a lot of confidence in the fact that we are going to realize the full benefit of the services position that we have today in the EDS acquisition. That is going to give us better share of wallet in the enterprise; it will help all of our businesses. Obviously, we also will continue to increase and expand our margins in that space.

Finally, I leave you with the confidence that we can grow EPS significantly faster than revenue. We've got the right set of products; we've got a more stable environment. And we can -- as we put growth in on our improved operating model, we will see that EPS expansion. So one word -- we are confident. Thank you.



Ben Reitzes - Barclays Capital - Analyst/Moderator

Wow! Well, you heard it here at Barclays Capital Tech Conference. (laughter) What a great job. Thank you so much for being here.

Cathie Lesjak - Hewlett-Packard - EVP, CFO

Thank you.

Ben Reitzes - Barclays Capital - Analyst/Moderator

We will look forward to having you here next year. What do you think?

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

Thank you.

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