

# FINAL TRANSCRIPT

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

## **HPQ - Hewlett-Packard at Goldman Sachs Technology Conference**

**Event Date/Time: Feb. 24. 2010 / 9:10PM GMT**



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## CORPORATE PARTICIPANTS

### **Cathie Lesjak**

*Hewlett-Packard Corporation - EVP and CFO*

## CONFERENCE CALL PARTICIPANTS

### **David Bailey**

*Goldman Sachs - Analyst*

## PRESENTATION

### **David Bailey - Goldman Sachs - Analyst**

Okay. Good afternoon, everyone. I'm David Bailey from the Goldman Sachs hardware team. And we are thrilled to have Cathie Lesjak, the CFO of HP, back with us again this year as one of our keynotes. Cathie, good afternoon.

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### **Cathie Lesjak - Hewlett-Packard Corporation - EVP and CFO**

Thank you for having me. It's great to be here.

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### **David Bailey - Goldman Sachs - Analyst**

Before we get started, HP wanted me to tell you that this presentation may contain forward-looking statements that are subject to risks and uncertainties. Please refer to HP's SEC reports for a discussion of those risks. I always wanted to read that.

So Cathie, you've commented several times that you expect HP to grow faster than the market. Does this above market growth come mostly from share gains or does it come from HP's exposure to faster growing businesses?

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### **Cathie Lesjak - Hewlett-Packard Corporation - EVP and CFO**

You know, you need to back up and understand that we have been investing before the downturn, during the downturn, and we continue to invest to improve HP's competitiveness. And frankly, we've got a cost structure that is very competitive today.

And the other key thing is we're not done. We still have a lot of costs that still needs to come out. But in addition to the costs, we've also been investing on innovation. And you really see that in the G6 launch that we have in our industry standard servers last year, and the success that that has because of the value proposition that it brings in our TouchSmart PCs, in our Web-connected printers. This is all innovation that delivers really strong value propositions to the market.

We're also continuing to invest in both sales coverage and customer service. So last year, again, a tough year for most people. We invested in three additional call centers in the US. And that was really specifically targeted at basically going after the SMB and the public sector business and getting on the attack in that space. We also opened up a new factory in western China to go after that market.

And so if you kind of look at cost structure, you look at innovation, you look at all of the investments that we've been making and continue to make in sales coverage, and you put them altogether, that's what gives us confidence that we are going to be able to outperform the market and, at the same time, deliver meaningful operating leverage.



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**David Bailey** - Goldman Sachs - Analyst

Now, on the earnings call, despite not wanting to take up your 0% to 2% sort of outlook for the IT spending environment, you did make some very strong comments about investing even above and beyond what you have been doing. What does that tell us about how you are thinking about the demand environment? Why start to ramp investing now?

**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

I think the key thing again is we're coming out of continuing to invest. And now that we see demand starting to pick up, we want to accelerate that investment, particularly in sales coverage. So if you think about our total addressable market, we view it as about a \$1.3 trillion market, and we don't believe that we cover that as completely as we could, nor frankly as effectively as we could. The enterprise piece of that market alone is something like \$700 billion. If you just think about gaining just 1 point a share, you are talking about \$7 billion of revenue growth with, frankly, I will tell you, a good drop rate. So this is a good time to invest and to continue to put ourselves into a market-leading position.

**David Bailey** - Goldman Sachs - Analyst

And do you need the investments that you talked about on the earnings call to reach your 6% to 7% top-line growth goal? Or is this incremental once this ramps up?

**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

This is predominantly incremental to the growth that we want to drive in 2011 and beyond. When you think about laying in additional sales headcount, you are really talking about a real investment because it takes anywhere 9 to 12 months to develop the relationship, to understand the products, to basically get the sales going in that account. And so it's really about the future and setting HP up for success.

**David Bailey** - Goldman Sachs - Analyst

Now these investments obviously take away some of the near-term leverage in the model. So how do we think about the trade-off and prioritization between top-line growth, margin expansion, earnings and cash flow?

**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

We basically look at those levers and juggle the trade-off on a very regular basis. But let me talk a little bit about how we set our plans.

The first thing is we actually set plans for three years. So it may surprise you that we've actually been working on the 2010 plan for the last two years. And that's actually critical to our success because we need to know where we need to go in order to know what types of steps we need to take, whether around cost savings or investments that we need to make. But we always start with the top line.

And we look at kind of the market. We look at our position in the market. And we think about what would be a reasonable growth rate for us in the market. And then we look at a logical drop from that.

And then we start layering on, okay, what cost initiatives are in what stages? And what kind of cost savings does that bring into the period of time that we're looking at? And what kind of investments would make sense at that same time? And when you put those altogether, very much focused on kind of how to make HP long-term sustainable, very competitive position, at the

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same time meeting obviously some near-term goals, and that's really what ultimately gives us the guidance that we provide to you of, for 2010, 6% to 7% growth in revenue and 14% to 15% growth in EPS. Those are basically the numbers that we provided at our earnings call last week.

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**David Bailey** - *Goldman Sachs - Analyst*

And do you want to share the three-year plan with us today?

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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

I don't actually want to share the three-year plan. But it's important that we are making the investments in sales coverage and a number of other areas so that we can get to our 2011 and our 2012 plan. And that's why we can really talk about it with confidence as to what it is going to drive.

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**David Bailey** - *Goldman Sachs - Analyst*

More tactically, HP saw a \$500 million increase in your inventory level this last quarter, quarter over quarter. And you talked about some component shortages. Can you give us a little bit more detail on where the shortages have come from and what the build-up in internal inventory is?

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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

I think the first thing you need to do when you look at inventory, you've really got to normalize it for volume. Because if you actually look at the sequential change in inventory days, it's roughly a little over a day. And that's not atypical. There were a couple of additional things that happened in this quarter that don't happen every Q1.

One is that the Chinese New Year was in mid February this year, and we wanted to make sure that we stocked up on products so that we didn't have any shortages while China was closed for a week or two. So that was the first piece.

And then the second piece really was around strategic buys, and looking at what the commodity environment -- what the expectations we had around the commodity environment, what kinds of deals we could get. We did have an uptick from Q4 to Q1 in strategic buys.

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**David Bailey** - *Goldman Sachs - Analyst*

Now, in your PC business, you saw great unit growth again this quarter. But your operating margin in PCs has come down on a year-over-year basis I think in each of the past five quarters. So, you're clearly going after market share. How do you look at the trade-off between market share and margin there?

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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

I think that, first of all, I will say we weren't clearly going after market share. Now let me talk a little bit about that, but first let's talk about the fact that in PSG, the margins that we guided to at our security analyst meeting last September, the result, 5% is at the high end of that. And it was flat year over year.

If you look sequentially, though, the revenue sequentially went up 7%. And the operating profits were up almost double that rate. So we did see good operating leverage in the PC business.

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And then to get to your market share question, we actually look at market share as the result of executing well. And we've been executing well because we were able to give that kind of operating leverage in an environment in which commodity prices were under more pressure. And so again, doing a great job in terms of executing. And that leads to market share.

The other important thing about market share is it kind of gives you a sense of how you might perform in the future, especially when you think about a corporate refresh coming.

In the US commercial space, we gained 4 points a share in calendar Q4 year over year. That gives us good momentum for our corporate refresh and the upgrade to Win 7. So we feel like we are well positioned.

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**David Bailey** - Goldman Sachs - Analyst

And can we just touch on the corporate upgrade cycle a little bit? Have you seen any concrete indications so far that you're going to see a pickup later this year?

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**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

The indications that we've seen are really that corporates -- we are getting much more involved with corporates on testing. And that obviously is going to be a precursor to anything that they are going to do from an upgrade perspective with Win 7. And so, the tone is that there is -- the corporate upgrade will start in the second half of 2010.

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**David Bailey** - Goldman Sachs - Analyst

Now, you saw some price declines in PCs. But it was much less than you have seen in the last few quarters. It was only I think down 5% versus double-digit. What were the main drivers behind the more benign pricing? Is it mix?

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**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

So there were really two -- two major factors. The first one is really the fact that we have now had a solid presence with Mini-Notes for over a year. And, the mix of Mini-Notes in our revenue has started to stabilize. And that obviously helps with ASP compares. And then the other piece is that we did increase in some places, in some products, we did increase prices in Q1 in direct response to the commodity pricing environment, which obviously helps ASPs, as well.

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**David Bailey** - Goldman Sachs - Analyst

Over the intermediate to longer term, desktop virtualization is going to be a big trend. You talked about the Mini-Note. Maybe margin neutral, you can talk about that. But from an op profit dollars, how do you offset the decline that you see of these as the upgrade cycle elongates?

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**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

You know, David, I think there's kind of a common misperception about Netbooks and even the low-end notebooks, and that's that they are negative for our operating profit. In fact, we make money in that space. And, we believe that you need to have this kind of complete lineup, all the way from entry level all the way up to the high-end gaming and the workstations, and that we are well positioned as a result of that. As we have seen in 2009, there was a shift to the low end, but that seems to have really stabilized. And so that's clearly helping us on a compare basis.

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The other thing in terms of PC virtualization, we don't view it as neutral to margin. In fact, we've got a very strong position in PC virtualization. We are growing well on a small base. We love the uptake to PC virtualization to actually accelerate. We think that's still a little ways off. And the reason why we are excited about that is that if you think about PC virtualization, it's really a solution. It's a hardware, software and services solution. And when you put the margins altogether, they are pretty attractive to HP.

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**David Bailey** - *Goldman Sachs - Analyst*

In the Enterprise business, or generally in the competitive environment, there's some major changes going on, whether it's Oracle buying Sun, Cisco getting into the server business. How do you think about the competitive dynamics, particularly in the server market, over the near and intermediate term?

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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

We feel pretty confident in our server position. We've obviously continued to gain share. We had our largest server launch with the G6 platform this past year. It's got really unique IP in it that helps differentiate us and deliver a good value proposition with our Sea of Sensors, as well as our what's called Dynamic Power Capping that really helps with power usage in the server. We also saw really good Blades growth of greater than 20% in the last quarter.

And then another really key piece of business that is unique to us, no one else has this technology, and that's our Virtual Connect. And Virtual Connect is really a product that allows companies to really reduce and consolidate the number of network ports that they have, which will help from a cost perspective. It also manages throughput.

With those pieces of innovation, we're in pretty good shape from a server perspective. We have migrated a number of Sun customers to our industry-standard server platform. And if you take it up a level and you think about okay, what makes you successful in servers? We think scale is important. We definitely think market coverage is important. Application expertise, and all of this wrapped with services capability. And if you think about those as being critical elements of the server market, and you think about where HP is particularly strong, I think you would agree that we're in a great position to really outperform in the market. And again, at the same time, benefit from operating leverage that we are going to get.

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**David Bailey** - *Goldman Sachs - Analyst*

Now, server virtualization continues to be one of the hottest topics in tech. How should we think about your recently announced alliance with Microsoft, improving your competitive position? How does this put you in the best position to win?

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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

Really that announcement is building on our 25-year partnership with Microsoft. And it's a very strong strategic partnership. There are really two key areas that the newly announced partnership is going to kind of give us a better position in.

One is around e-mail, by basically marrying Microsoft's position in their exchange platform along with our server, storage and soft -- management software; that will give us a unique value proposition. But also, in online transaction processing, with their SQL Server and our management software.

And the key there, those two combined are a market opportunity of a little over \$50 billion basically between 2010 to 2012, so a really big opportunity for us. The value proposition of working tightly with Microsoft in this partnership are basically kind of ease-of-use, an integrated solution, faster time to implementation, and frankly, easier serviceability. So again, we think of this as a large opportunity, where combined, we are going to be uniquely positioned.

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**David Bailey** - Goldman Sachs - Analyst

Now, in printers, you've talked pretty openly about unit placements being one of your top priorities this year. And you saw a big rebound in unit shipments in the January quarter. What actions are you taking to do those printer placements? Is it just about pricing?

**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

It's really not just about pricing. You've really got to go back to the fact that HP has a very strong imaging and printing franchise. We've got a very broad set of products in this product line. We've got great intellectual property in printing. And we've got -- obviously, we leverage the global reach of the Company with almost 50% share in that market, and, at the same time, industry-leading margins -- gives us a lot of flexibility to invest back in the business and continue to generate good margins.

We also, in many markets, are able to get a price at a premium. So, it's really -- it's not really about pricing really aggressively. And we are able to get that because of the IP that we have and the products that we deliver. One example is our OfficeJet Pro product, which is a commercial ink product.

And if you think about commercial ink, businesses print way more than consumers do. So it's obviously positive for margins for us. And we just think that there are times when we will look at pricing but it's got to be the right trade-off, the right return on investment, in order for us to look more at pricing. And we will use it in a more targeted way. But our success is really not all about pricing.

**David Bailey** - Goldman Sachs - Analyst

Can we just talk a little bit about business inkjet? What actions are you taking to drive inkjet into the business market other than creating products that fit that market?

**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

You know, it's a lot of marketing as well. Making sure that people understand what the value proposition is of our commercial inkjet products. And look at it kind of relative to competing products in the market, whether the technology is laser or other competitors. And we've had good success, really good success.

Our OfficeJet Pro line and Ink in the Office initiatives have gone well. And again, to go back to one of the motivations for us is the very attractive margin profile that you get from putting out a single unit that generates a lot of supplies attached.

**David Bailey** - Goldman Sachs - Analyst

Now over the past year, you've talked about trying to balance supply and demand in printers, particularly on the laser side. And it seems like you've gotten there with supplies. But on the hardware side, you are still trying to catch up. Why has that been such a difficult task? And what can you do going forward to make that better?

**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

I think the key is to continue to work with our supplier base. And we've been doing that, and we're making progress. The good news is demand is picking up. The bad news is that means that the shortages that we felt in Q1 are probably going to continue into Q2.

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In the second half of the year, though, the demand/supply is going to get much better balanced. And in fact, in total for the year, we do expect that we will grow units, LaserJet units, double digits in total for the year. We expect to do the same thing in ink. But there's a significant uptick in the second half for our lasers.

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**David Bailey** - *Goldman Sachs - Analyst*

And maybe with that, we can open it up to the audience for a question or two. Are there microphones out there?

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## QUESTIONS AND ANSWERS

### Unidentified Audience Member

I just wanted to go back to the inventory question that David had asked about a little bit earlier on. And I understand you said it was really in the grand scheme of things, only kind of about a day. I believe on the conference call, I think you had commented that some of the inventory build at least was memory, as memory prices were firming up. Is there any more color you could give us on the components of that inventory build?

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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

As I said, there's really kind of two pieces that I would say were not kind of normal seasonality. And the first one was really around the Chinese New Year and stocking for that. And then the second one was around strategic buys, which is exactly when the memory would play in. And we do this pretty routinely every quarter. In fact, we do have strategic buys every single quarter. And we tick up or down depending on kind of our view on pricing. On, also, obviously, making sure that we have assurance of supply. And then also, there are times when we're actually able to get very attractive pricing deals. And this time it was, again, taking advantage of the opportunities that are out there in the market.

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### Unidentified Audience Member

Would you -- could you give us any color on what you might think about in terms of strategic buys in the quarter or two ahead based on where you might expect to see tightness? Thank you.

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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

We don't really comment on what's going to happen over the next two quarters. Other than to say, and I think we were out there in the earnings call talking about commodity prices, and basically saying that we do expect there to continue to be some tightness in commodities, that we don't really see a dramatic change in that.

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**David Bailey** - *Goldman Sachs - Analyst*

Maybe I could just ask that a little bit in addition to that is, outside of strategic buys, inventory levels should normalize going forward. I mean I know they were only up a day; I don't want to make too big a deal of this. But there's no reason to think outside of strategic buys that your inventory will vary that much from a normal pattern?

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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

No. In fact, I will argue that what you saw as a day uptick was pretty normal.

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**Unidentified Audience Member**

Can you talk a little bit about HP's plans for the handheld device market for smartphones?

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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

So I think that's an area that we still are working on what's the best way to play in that profit pool. And in general, our view is more on how to get into the services in that space. And it's less about necessarily having a device. We don't want a device for device sake. What we would want to do is we want to get positioned well from a services prospective. And we are still -- we've still got work on basically coming up with our strategy on that.

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**Unidentified Audience Member**

(Inaudible question - microphone inaccessible)

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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

Right. So I think that at this point in time, we're still working on exactly what the right strategy is for us in order to go after that profit pool.

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**Unidentified Audience Member**

It was noted that you guys had relatively good average selling prices during the course of the quarter. And I'm wondering if you could comment on that specifically in the context of the mix of notebooks relative to Netbooks, either in the China market or globally.

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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

I think I would go back to some of the comments I made earlier today that around ASPs in the PC space because we also had good ASP improvement basically quarter to quarter and year on year in our server space. But on the PC side, it was really kind of the normalization of the fact that the mix of notebooks -- I'm sorry, Mini-Notes in the notebook space has really stabilized. And so the year-on-year compares are more normal. And so you see that kind of benefit to ASP's.

And then the other piece is obviously that we did make some price changes in direct response to commodity pricing pressure in some areas that also gave some lift to ASPs on a quarter-to-quarter basis and obviously dampened the decline in ASPs on a year-to-year basis.

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**Unidentified Audience Member**

As you move your server business into the Cloud and into more complex data centers, I don't believe you mentioned whether you will emphasize or prefer one virtualization software technology over the other. Or were you going to leave that to your clients? Or will you be in a position to supply any one that your clients want?



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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

Our strategy there is actually to supply what our customers want. We've obviously done some partnering with Microsoft that helps us in that space as well. But in general, we are pretty agnostic from a virtualization software perspective.

**David Bailey** - *Goldman Sachs - Analyst*

Maybe one more question from the audience.

**Unidentified Audience Member**

Back here in the back. Could you just -- any thoughts on how your relationship with Canon might continue to evolve over the next few years?

**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

We've had a long-standing, very strong partnership with Canon. And we continue to evolve that relationship in frankly a very positive direction. I think it's about a quarter ago we basically extended some of the products that we're basically working with Canon on in the high end. And so we continue to have a strong relationship there.

**David Bailey** - *Goldman Sachs - Analyst*

Then, just to go on to services a little bit. You saw a 300 basis point improvement in op margin year over year, which is awesome. But it was down for the first time quarter over quarter in quite some time. How should we think about the trend in services going forward?

**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

I think you have to start to look at what the seasonality is in our services business. So it's pretty normal seasonality now that we've got EDS in the mix. That from Q4 to Q1, you would see a normal decline in revenue as well as in operating profit. And really, that's driven by the fact that Q1 is a big quarter for renewals and contractual repricing. And so that's going to be a typical pattern in the services space Q4 to Q1.

**David Bailey** - *Goldman Sachs - Analyst*

And, as I said, you have seen a lot of margin expansion in services. Can you talk a little bit about the sources of those savings outside of the headcount cuts?

**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

I think what we have told you guys about kind of the EDS synergies, is, there are two big buckets, right? There are headcount synergies that are roughly half of the synergies, the \$3 billion that we are going after; and then the non-headcount ones.

On the headcount side, we still have thousands of heads to get out, although we are making very good progress there and it's in later innings. If you look at the non-headcount synergies, they are really primarily around IT and real estate. And in both cases, we have a lot of work still ahead of us. In the case of real estate, there are hundreds of buildings that we still need to vacate.

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And in the case of IT, we are moving hundreds of applications out of old data centers into HP's pre-existing fixed next-generation data centers. So as those migrations take place, there is very large cost savings that are coming through the P&L.

At the same time, we've been gaining momentum from a sales perspective and a funnel perspective, and we are bringing in new deals. And new deals in the IT outsourcing space, you look at them in the lifecycle, and in the very early days, the first couple of years, margins are typically break even to plus a little, minus a little. Whereas the back end of the deal, it's much more profitable. So this is the perfect time to have cost savings coming in at the same time that you're layering on growth. And that that's really what's enabled us to deliver the kinds of margins that we've delivered in the last couple of quarters.

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**David Bailey** - *Goldman Sachs - Analyst*

At the analyst day, Mark Hurd talked a lot about the alignment between services and software. And IBM has had a great deal of success cross-selling both ways. Now that EDS is mostly integrated, do you have the right software lineup to go with it?

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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

We have a very strong software alignment. We have the right software lineup -- I'm probably at a point where I would say you can never have too much software. So we are investing -- continuing to invest heavily into software.

If you think about EDS before we acquired them, they were the largest reseller of Opsware. Now that we own EDS, the beauty here is that we not only can sell Opsware as a software -- on a software license basis -- but we now can also sell to the market basically a data center automation service. Which, obviously, is going to be very positive for us.

There's still more work to be done in terms of integrating Software and Services. Kind of the early steps we have taken, one of the early steps we've taken, is we've actually sent the CTO from Software to Services and the Services CTO to Software so that we can accelerate the cross-fertilization and the integration.

I go through regular reviews with folks certainly around earnings. And one of the questions we asked of the Software group was basically how is it going. And Software was very pleased with the pull-through that they are starting to see, and the engagement that they are getting on the Services side. So while we have work to do, we are making progress.

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**David Bailey** - *Goldman Sachs - Analyst*

And then, with the 3Com acquisition, there seems to be a great deal of excitement about the technology behind their products. What sets them apart, and how sustainable of an advantage is it?

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**Cathie Lesjak** - *Hewlett-Packard Corporation - EVP and CFO*

3Com, from a switching and routing perspective, has very strong product lineup. They also have, embedded in their products, an integrated management stack, which creates a nice value proposition.

And then the other thing that we get with the 3Com acquisition that is we think pretty exciting is security IP in their TippingPoint product. If you look at 3Com today, it's powering some of the largest banks in the world. We think there's a huge opportunity for us to basically accelerate the growth outside of China of the 3Com products.

But 3Com isn't by itself either. We've got our ProCurve product. It's got good momentum in the market, continues to gain share whether you look at it on a ports basis or a revenue basis. And, at the end of the day, when you look at the ProCurve products,

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the 3Com products and the ProCurve alliance partners that we have, we think we are very well situated to really outperform in the market.

And I think the other piece, from a networking perspective, is that our competitors' margin profile leaves us with our scale a lot of room to, frankly, redefine some of the networking economics, so that we not only grow -- gain share, but we also deliver accretive margins to Hewlett-Packard.

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**David Bailey** - Goldman Sachs - Analyst

And just a few points on that. You talked about 3Com's strength in China, but they have relatively little presence outside of there. What do you need to do to expand it beyond China? And how long will that take?

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**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

The number one thing we need to is basically plug it into the HP network. We have, and get the brand. Our brand is one of the largest brands we've got. We're in about 170 different countries. We are continuing to build out on our sales coverage, as I talked, about in our \$1.3 trillion total addressable market. But we are building at it broadly, but we are also making some very specific investments in the networking space as well that will help us continue to basically take 3Com broader.

They've got a great value proposition, and so that we are pretty confident that we are going to be able to do that. And again, as I mentioned, it will be accretive to margins for us.

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**David Bailey** - Goldman Sachs - Analyst

And then, 3Com obviously has a different software stack than ProCurve. Do you need to merge those software products to make this successful in the long run?

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**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

The overlap between ProCurve and 3Com is not huge. There will be some integration that we are absolutely going to have to do. And we will make more announcements along the lines of what that means as soon as we get this closed. The first thing we've got to do is get it closed.

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**David Bailey** - Goldman Sachs - Analyst

And a little bit, it's obviously -- Cisco was formerly a partner of HP. Now it seems it's going more to head-to-head competition. How do you view that? How do you view your Cisco relationship?

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**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

So I think we view it more on a competitive -- as a competitor, which obviously is a change from the previous years. But that's really the way it is today. We feel very well situated from a server perspective. When you think about scale, you think about the software, you think about the services that you need in the next-generation data center, and you look at HP's portfolio, we feel like we are the only one in the industry that basically has all the component parts. And so that obviously gives us confidence.

Feb. 24, 2010 / 9:10PM, HPQ - Hewlett-Packard at Goldman Sachs Technology Conference

On the networking side, 3Com can go head-to-head with Cisco products. It's got newer technology. So we think it's got kind of a longer set of legs to go. And the early indications are, from our customers, is that they are excited about us being in the enterprise data center networking market as well.

One of the key things I should have mentioned in the last question was around things that we've got to do to really be successful is we've got to get the proof of the concept basically out in the market. And the feedback, the early feedback, from customers is they are excited about doing those proofs of concepts with us because of the value proposition, both from a technology perspective, but also from a cost perspective and having an alternative in the data center.

**David Bailey** - Goldman Sachs - Analyst

And then, just to wrap up, we've talked a lot about the business. What milestones or takeaways should investors look at with HP over the next 12 to 24 months?

**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

I think you should look at the kind of growth that we are able to drive. Obviously, we've got to live up to the guidance that we've provided, so I think there's a huge opportunity in that space. I think that you will see us continue to improve on our cost structure, which will give us a lot of opportunity for additional earnings expansion over the longer term. Obviously, we've talked about, in 2010, the 14% to 15% growth. But as I talk about the fact that we've got a very competitive cost structure today, and when I sit back and I look at the entire funnel of cost initiatives that we've got going, there are billions of dollars that still need to come out of our cost structure. And we are investing in, or taking those savings, and we are investing them into market coverage so that we can address the market more completely. And we have that opportunity to frankly gain more share in the enterprise market that will drop some significant operating leverage.

**David Bailey** - Goldman Sachs - Analyst

Awesome. Thank you very much for your time. Really appreciate it.

**Cathie Lesjak** - Hewlett-Packard Corporation - EVP and CFO

Thank you.

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