

FINAL TRANSCRIPT

Thomson StreetEventsSM

HPQ - Hewlett-Packard at Credit Suisse Group Annual Technology Conference

Event Date/Time: Nov. 30. 2010 / 6:00PM GMT



Nov. 30. 2010 / 6:00PM, HPQ - Hewlett-Packard at Credit Suisse Group Annual Technology Conference

CORPORATE PARTICIPANTS

Marius Haas

Hewlett-Packard - SVP & Worldwide General Manager, HP Networking

CONFERENCE CALL PARTICIPANTS

Kulbinder Garcha

Credit Suisse - Analyst

PRESENTATION

Kulbinder Garcha - *Credit Suisse - Analyst*

Okay, we'll get started. We're very happy to have Marius Haas, who's SVP in charge of Networking at HP.

Before we get started, HP have asked me to read a disclaimer which is, "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 think I've got that right, Catriona. Did I? Good. Good, great.

So thanks for your time, Marius.

Marius Haas - *Hewlett-Packard - SVP & Worldwide General Manager, HP Networking*

Absolutely.

Kulbinder Garcha - *Credit Suisse - Analyst*

If I kick it off, can you start about-- just talking about the portfolio in Networking and how the whole 3Com and ProCurve products fit together and the strategy for them going forward? Can you start with that?

Marius Haas - *Hewlett-Packard - SVP & Worldwide General Manager, HP Networking*

Absolutely. Let me give you a little bit of an historical trend here so everyone's on the same page. So HP had a very nice, let's say, office LAN architecture for Networking for a very long time. We've been in the business for over 20 years.

We got to a second position in the market share purely with that limited product portfolio and one of the things that we needed to do pretty quickly is expand that out to do core switching and routing, as well, so that we could address the full needs of an enterprise and address the full data center requirements, as well. Customers demanding it and, obviously, it's an opportunity for us to deliver complete converged infrastructure for our customers, that's what we needed to do.

When we went out and looked at every asset that there was in the market, looked at Juniper, looked at Brocade, looked at, obviously, Cisco, because obviously that's a benchmark that we needed to exceed, looked at 3Com, looked at Force10 and did a triangulation internally within our EDS organization, within our IT organization and my team about what was the best technology in the market that would fit our architecture strategy and give customers a differentiated value proposition that was extremely competitive.

Nov. 30. 2010 / 6:00PM, HPQ - Hewlett-Packard at Credit Suisse Group Annual Technology Conference

And we were all extremely pleasantly surprised as to how the H3C/3Com portfolio really gave us that end-to-end, everything from wireless all the way to core data center routing and switching. In addition, it gave us the TippingPoint security assets, which is the industry leader in intrusion prevention.

So now we can address every need within an enterprise and have seen tremendous momentum in how that portfolio is coming together. The architecture is very similar in a sense that it fits nicely.

We've got one what we call Comware management solution that can manage any heterogeneous network device, all of the existing ProCurve pieces, all of the 3Com components, as well as Cisco, as well as other competitors, so truly simplifying that architecture for the customer, delivering best-in-class products at extremely attractive TCO metrics, anywhere from 35% to 65% lower cost than the competition. So, the customers are really resonating with that value proposition.

Kulbinder Garcha - *Credit Suisse - Analyst*

And just to be clear, from a functionality or portfolio perspective, what is it that you can offer that the established incumbents can't?

Marius Haas - *Hewlett-Packard - SVP & Worldwide General Manager, HP Networking*

So everything from wireless 802.11n capabilities, as well as retrospective to other legacy wireless solutions through all core data center switching and routing for the enterprise.

What we don't offer today is a complete portfolio for the telco/service provider, although they are becoming a strong partner for us on a sell-to/channel model and other areas that we today partner in is, for example, around WAN optimization and around server load balancing and application controllers. Those are areas that we partner in today, but otherwise, everything else that's needed for an enterprise or a small business, we can-- a medium-size business, we can offer soup to nuts.

Kulbinder Garcha - *Credit Suisse - Analyst*

When you look at the opportunity for this combined portfolio is there a particular vertical that you're targeting first? How will you be able to benchmark your success over the next couple of years, do you think?

Marius Haas - *Hewlett-Packard - SVP & Worldwide General Manager, HP Networking*

I start with market share gains. It's a-- so today, estimates show that we're roughly north of 10% on a revenue share, right around 20% on the ports share in the market. Last few quarters we've had significant growth on a quarter-over-quarter basis.

If you look at it-- you take the '09 out of the equation because it was kind of an anomaly year, to some degree, you take '08 as a baseline, we grew 42% from 3Q '08 to 3Q '10 or calendar year '10. If you look at the Dell'Oro numbers, we gained 2.5 points of share in that process. Our largest competitor lost 2.5 points of share in that process. So-- and our AUPs went up 12% just in the last year alone and we got record margins where we see some of our competitors having margin erosion, both on the margin line as well as the operating profit line. So, significant growth, well ahead of market, gaining share, great margin profile and we're seeing some of our competitors are starting to feel the pain.

Kulbinder Garcha - *Credit Suisse - Analyst*

Is the success you're having in any particular industries or verticals or is it broad-based?

Nov. 30. 2010 / 6:00PM, HPQ - Hewlett-Packard at Credit Suisse Group Annual Technology Conference

Marius Haas - Hewlett-Packard - SVP & Worldwide General Manager, HP Networking

I think it's pretty broad-based. We had historically been a very good mid-market technology player and we got more and more demand to go up into the enterprise. We've got large customers that-- I'll give you an example. We had a Wall Street Journal that we did and we had customers like BMW, UPS, General Electric, China Mobile, Marriott International. These are all big customers that put their logo on there, right next to ours, to say we're a testimony that HP is a complete enterprise player and a complete global player.

So we have great progress in the enterprise. We've done many proof of concepts with our top 1,000 accounts across all segments -- banking and others. We've done a tremendous job in the government sector. We don't see some of the slowdowns that are competitors are seeing. So we feel good about the momentum, feel good about the presence that we have across industry segmented and vertical view.

Unidentified Participant

One of the things I think HP's spoken about is just the need to build out a distribution sales force behind this. What stage are we at with that? And when will that process be complete for you to actually be able to push this out aggressively across all--?

Marius Haas - Hewlett-Packard - SVP & Worldwide General Manager, HP Networking

No, great question. I mean, one of the things people ask is why wasn't this momentum being generated earlier. Part of the issue was is that we didn't have the coverage that we needed across the market and, at the same time, HP was a little bit skittish before about we had incented our sales force to actually sell some of our competing products, because for some reason we decided that was the case.

No longer are we confused internally about what we're selling and what we're offering. It's made it a lot easier with some of our competitors deciding to go into some of the segments that we were already serving.

So now we've got the full force of HP behind it. Every enterprise has got someone from HP touching them. The kind of coverage that we're seeing is two to three times more than what we had before, plus we're aggressively going after and recruiting channel partners, right?

There is a lot of existing networking channel partners that have, to some degree, been a single-vendor-focused entity and what they're seeing is that customers are telling them that they're not providing a competitive offering, because they're not providing multiple solutions as a possible alternative.

So they're coming to us now, too, and wanting to be part of our ecosystem on a go-to-market side. So we see expansion on coverage for what HP is covering, but we also see on different channel areas that partners that are coming with us and coming on board and wanting to participate with us.

Kulbinder Garcha - Credit Suisse - Analyst

With the success that you've had so far, do you have any kind of benchmark or estimate, even, as to how many times bundled with the wider HP portfolio? You're going to (inaudible) selling everything else, so how much is on a stand-alone basis for the networking side?



Nov. 30. 2010 / 6:00PM, HPQ - Hewlett-Packard at Credit Suisse Group Annual Technology Conference

Marius Haas - Hewlett-Packard - SVP & Worldwide General Manager, HP Networking

Well, I mean, so I, personally, obviously, get measured on the success of the HP Networking organization, so clearly know those numbers in quite a bit of detail, but for the customer coming in, a silo isn't what they're looking for. They want to have a more-- a solution-driven conversation around what is it that we can do to help them deliver better business performance to their internal constituencies, all right?

So that's where the HP kind of value proposition around converged infrastructure, servers, storage, networking coming together, doing it in a modular-based, standards-based architecture model which can make transitions at any time, depending on their economic or business needs, but also is compatible with any legacy investments they've made, as well as moving them forward towards a next-generation architecture model.

And doing that way and allowing them to make the decision as to what they transition when and not forcing them to do kind of major upgrade cycles is something that they tremendously value. And knowing that HP is the only one that's got server, storage, networking together under one organization from an IP perspective is-- gives us an advantage and allows us to build this integrated model in such a way that it's optimized for the customer.

That's what they want to hear and then that conversation quickly turns into a discussion around okay, how do I change my organizational model internally? Because internally, the CIO, in many instances, has kind of built an organization structure around server, storage, networking. So allowing for that transformation to start to happen, allowing for some of the training and certification pieces that we're announcing and offering to the customers and our partners helps them not just think about a converged infrastructure, but also helps them think about how do I make that transformation in a broader scale across my entity.

Kulbinder Garcha - Credit Suisse - Analyst

With the market share that you clearly want to continue taking, can you speak about how you balance that with the need-- do you want to preserve industry margins in this segment? Or is it (inaudible) this is a land grab for you to take share? How should we look at the balance of that?

Marius Haas - Hewlett-Packard - SVP & Worldwide General Manager, HP Networking

Sure. I mean, it's-- I'm going to be extremely aggressive about taking share, but I have no intent to completely demolish the margin structure in the industry. The good news is, around HP, I've got on an average basis 24% or so gross margins. Virtually anything I do on the networking space is accretive to that model. So we're a very welcomed organization inside the broader HP organization and everyone wants to invest in an accelerated growth of the networking space.

We feel extremely-- are extremely happy with our cost structure and our business model. To give you an example. I've got 80% of my engineering talent's already in offshore, low-cost locations. And it takes me-- it costs me 40 grand to add a very talented engineer, all in, and I can do that on the hundreds.

So, it's just-- for me to scale and for me to scale this business model without risking or degrading our margin profile is actually relatively simple to do. Obviously, there are other competitive dynamics that other competitors will dictate that we can't control, but you see the kind of momentum we're having in the market, you see a 50% organic growth that we showed in the market this past quarter, and yet we've produced record margins for the business, for both legacy ProCurve as well as 3Com business.

So again, we feel really good about our ability to balance the growth profile, while maintaining the margin profile, and, at the same time, we're seeing some of our competitors' margin erosion being pretty aggressive. So, again, we feel we've got the right model and the right formula.

Nov. 30. 2010 / 6:00PM, HPQ - Hewlett-Packard at Credit Suisse Group Annual Technology Conference

QUESTIONS AND ANSWERS

Kulbinder Garcha - *Credit Suisse - Analyst*

Are there any questions from the audience?

Unidentified Audience Member

Hi, how you doing? A question-- and I know it's hard for you to put yourself in another company's shoes, but those of us who-- we listened to Cisco a few weeks ago and we tried to kind of figure out what they're seeing, what's happening, and they kind of point to the market share numbers not really showing that they're losing market share in kind of their traditional businesses.

But one thesis and I'm just curious as to your take is, is there something about the traditional switching business per se, that is getting de-prioritized as we-- whether we move to cloud or whether it's what you guys are seeing enterprises spend on. I understand for you guys, you have a long way to go. It's strategic for you guys to gain share in this area, especially to help out your other businesses, as well, and on its own. But outside of market share, is there something that we should think about going on with relation to switching as a result of some of the other trends that everybody's talking about at this conference?

Marius Haas - *Hewlett-Packard - SVP & Worldwide General Manager, HP Networking*

I think it's a-- there's been a decade of very little competition, especially in the enterprise space, for that part of the market. And when that happens, you don't-- you see a strong player continuing to become stronger.

What's happening now is this phenomenon where everyone realizes that every dollar spent has to be scrutinized. They realize that if someone tells them, hey, you've got to upgrade to this next generation platform, because that's my transition I want to make and they are seeing that there are some proprietary components to that architecture, it's not as-- priced competitively as what they're hearing other solutions might be in the industry, you create this environment where all of a sudden customers are saying, hey, look, I'm going to take a look.

I want to have competition for my business. I don't want to be dictated what I need to go do and when I need to go do it. I'm tired of paying 80%-plus gross margins on a business that probably could drive to more standardization and commoditization in some parts of it, right?

So all we're doing is say, hey, look, we're going to help you accelerate to that kind of a model and we're going to present with you-- to you an alternative that has a better architecture, that gives you lower latency, gives you better bandwidth, gives you more standards-based protocols. You can plug and play any other component into it and we're not locking you in and guess what, we're giving it to you at 35%, 65% less cost.

Nine times out of 10, the CIO nods his head and says, yep, or her head, and says, I'm all ears. Then the conversation, obviously, takes place with the network architects that have traditionally grown up as Cisco CCIEs and then it becomes a lot more of a technical conversation about how does this architecture make a difference for them, in their environment, and that's, then, when it goes into the next phase of process, which is typically a sale.

But I don't see a bid out there any more that is not being contested, whereas probably the first half of this year there was a lot of pent-up stuff from '09 that just didn't materialize in '09. It was basically just order what the incumbent was before, because that already set the budget aside. Now it's really at a point where they have to consider an architecture change or an architecture upgrade and before they go lock themselves in for another 10 years into a proprietary stack, they're going to say, hey look, I'm looking at whatever else is out there.



Nov. 30. 2010 / 6:00PM, HPQ - Hewlett-Packard at Credit Suisse Group Annual Technology Conference

So for us, it's actually a perfect opportunity with the value proposition that we have and the fact that there is an economic demand that is different than what it was in the past and there is a true alternative with a great brand that can deliver that. All right? So a number of factors that are making that transition.

Unidentified Audience Member

You look out the next 12, 24 months, in your mind, what are the big growth areas that HP should be positioned within networking, do you think, the networking space?

Marius Haas - *Hewlett-Packard - SVP & Worldwide General Manager, HP Networking*

No, it's a good question. I mean, it's a-- for us, all right, so there-- one, so there's still so much runway to go, right? It's roughly about a \$25 billion to \$28 billion total addressable market, just purely in the product portfolio that I'm in today. I'm already growing faster than the market, so-- and yet, I've only got 10% share. So do I have a lot of runway there in the existing part of the portfolio? Absolutely.

Enterprise is going to be a big play and enterprise data center is going to be a big play for us. We've got 450-plus of our top 1,000 accounts going through a proof of concept phase right now. So that's going to be a big pipeline generation for us.

We've only tapped the surface on EDS as a channel for us, as well, right, where we have managed services accounts that we own and manage. A great opportunity for us to sell the complete HP value proposition from an infrastructure standpoint.

I'm going to expand on the service provider side of the channel. I'm going to expand channel presence on those partners that were Cisco-only-- Cisco Gold partners and only provided one alternative.

So there is pure coverage and pure increased pipeline opportunities that are low-hanging fruit for us. Now beyond that, there are addressable markets that are adjacent that are really interesting, all right, and that are also high growth and high margin. So, yes, we'll be looking at those and we're doing that aggressively on kind of a build, partner, buy philosophy and we will aggressively go after that space and continue to fill out the portfolio because we think this is an important market and we think it's a great opportunity and we know how to execute.

Unidentified Audience Member

What is that space?

Marius Haas - *Hewlett-Packard - SVP & Worldwide General Manager, HP Networking*

Areas that we don't offer today, as an example, right? We've got a great portfolio within security around TippingPoint, which is the leader in intrusion prevention in the industry today, all right? But we don't offer today a firewall solution or a next-gen firewall solution, all right? We don't offer today WAN acceleration. We don't offer today server load balancing and/or application controllers.

Those are all very interesting areas of the market that we will do a build, partner, buy assessment on. And they're all natural adjacencies to what we already do and so those would be areas that would be of interest.

Nov. 30. 2010 / 6:00PM, HPQ - Hewlett-Packard at Credit Suisse Group Annual Technology Conference

Unidentified Audience Member

This morning, SAP when they were doing their keynote up there, they were asked about their view of the stack and I think some of that was obviously directed about what they were going to do against Oracle and what-not. And it looks like the big tenet of their thesis is we don't want to touch hardware because we think multiple parts of the hardware part of the stack are going to go to the cloud. And I think that was in reference to storage. It was probably in reference to servers.

I don't think it was in relation to networking, but I just want to get your take on where you see your customers in that evaluation process as they think about cloud, because, obviously, I know, Mr. Donatelli has networking and servers and storage all kind of under the same roof. So I'm sure you guys have these kind of conversations. So I would love to get your insight.

Marius Haas - Hewlett-Packard - SVP & Worldwide General Manager, HP Networking

No, absolutely. It's a-- the cloud is probably one of the most-used buzzwords these days, right, and everyone's got a different opinion of what it is and how it'll actually emerge as a key technology trend in enterprises.

We still strongly believe that the first incarnation of that amongst an enterprise community is still going to be a more private cloud type architecture model. So in order to enable that to happen, the core infrastructure and delivering a core infrastructure that allows them to then spend the innovation dollars on modernizing their application portfolio that is optimized for a cloud-based solution is going to be job one.

And still, many of you are in the banking sector and you ask your CIO and you ask him, hey look, what's your spend of maintenance versus innovation, in the banking sector, they'll say 90%, 95% of my spend is still on maintenance versus 5% to 10% on innovation. Now, wouldn't that be great if they can move that to 20%, 30% on-- or even 40% on innovation so that they can start to drive to that kind of an architecture shift within their application portfolio by doing application modernization.

Those are the types of things that customers are asking us to do and help them do that. So it's building out that infrastructure ecosystem that is simplified, modernized and cloud-- and able to support a cloud-based architecture model still does require quite a bit of infrastructure support, especially if the private cloud is the first kind of incarnation of that within an enterprise space.

And, yes, we'll dabble with more of a public cloud in kind of more a B2C-type architecture setting and that's why you see a 3PAR-type acquisition, all right? We're very happy with where we were around our converged infrastructure with server, storage, networking, with the portfolio we had, but what 3PAR enabled us to do was accelerate what we're offering from a converged infrastructure standpoint in a cloud-based architecture model with what they're able to do with-- from a storage perspective. They're, I think, the storage solution for Amazon, as an example, and things like that.

So, yes, we're still thinking nuts and bolts, in many ways, at least in Donatelli's world, all right? And then, yes, there is a much broader ecosystem of discussions going on at HP to say, okay, how do we enable that to happen, both private, as well as public, from an architecture transition standpoint and software-based, as well.

Unidentified Audience Member

Just real quick, what's your view on desktop virtualization and does that help your business?



Nov. 30. 2010 / 6:00PM, HPQ - Hewlett-Packard at Credit Suisse Group Annual Technology Conference

Marius Haas - Hewlett-Packard - SVP & Worldwide General Manager, HP Networking

Hey look, I mean, one of the trends you see and you hear other people saying is how do you get a gig to the desktop, right? How do you start enabling the desktop performance to be such that you could have a remote application availability and access, just like if you were sitting right in the data center and accessing them.

That's a key trend, right? You have 70% of the workforce is now in more of a remote, distributed location versus kind of headquarter functions. So things we're doing is how do we create branch office architecture solutions that optimize bandwidth access, optimize application availability and application performance at these remote locations without any degradation.

So clearly, that's an important trend for how do you, then, deliver absent a kind of software-as-a-service model, applications as a service model, to the desktop and how do you allow that to happen with the broader ecosystem that we offer. So clearly a trend. We know it. Customers are telling us and clearly an important investment area for us.

Unidentified Participant

All right, this-- I appreciate this may be very early days, but given the change in the CEO, top management, do you think there's any chance that some of the sort of core values and key strategies, operational performance, M&A targets, et cetera, that have been a feature of HP for the last few years are likely to change, going forwards?

Marius Haas - Hewlett-Packard - SVP & Worldwide General Manager, HP Networking

No. So Leo's in his third or fourth week right now, right? I'll get a chance-- I've met him once. I'll get a chance to talk to him again on Tuesday when we have our broader kind of operational review session and I'll get to know a lot more about where he's going.

I think the indications he's given is that he is very much someone that values the customer interaction component and values the how do you deliver solutions that solve customer problems. So one of the things he'll clearly do is to say, okay, how do you take these disparate kind of component-- infrastructure components that we have and present that to the customers in a more combined kind of solutions-oriented manner.

That will clearly be one of his mantras. One, he'll do it with the portfolio he has and, two, he'll take a look and see where do I have gaps that will enable me to do that faster and better to customers. So, yes, he will certainly look at a growth opportunities, investment opportunities, in that scenario, as well.

Is he-- do I believe he's in a position to start making big portfolio rationalization decisions at this point? No, I think that evolves over time based on what are the strategies that he wants to bring the Company to. So I think it'd be-- to your point, it'd be too early too early to make speculation around that at this point in time.

Kulbinder Garcha - Credit Suisse - Analyst

Okay, I think we're just out of time. Thanks very much.

Marius Haas - Hewlett-Packard - SVP & Worldwide General Manager, HP Networking

Thank you. I appreciate it.

Nov. 30. 2010 / 6:00PM, HPQ - Hewlett-Packard at Credit Suisse Group Annual Technology Conference

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2010, Thomson Reuters. All Rights Reserved.

