FINAL TRANSCRIPT

Thomson StreetEvents℠

HPQ - Hewlett-Packard at Barclays Capital Global Technology Conference

Event Date/Time: Dec. 08. 2010 / 8:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Cathie Lesjak
Hewlett-Packard Development Company, L.P. - EVP and CFO

CONFERENCE CALL PARTICIPANTS

Ben Reitzes
Barclays Capital - Analyst

PRESENTATION

Ben Reitzes - *Barclays Capital - Analyst*

Again, I'm Ben Reitzes, the IT hardware analyst here at Barclays Capital. We are delighted to have you here today and we think this is our best one ever.

And we have another great keynote for you that is going to get started -- with that, we are going to get started with Hewlett-Packard and they asked 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.

And with that, I want to invite up onto the stage Cathie Lesjak, the longtime CFO of Hewlett-Packard, and a good friend of ours and we will have a chat discussion right here. Thank you. Cathie.

So, thanks for being here.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

Thank you for inviting us.

Ben Reitzes - *Barclays Capital - Analyst*

Not much going on, right?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

No, nothing at all. It's been a very relaxedtime period.

Ben Reitzes - *Barclays Capital - Analyst*

Can you actually start there? Can you just talk a little bit what it's been like since Leo has taken the helm and what it's been like for you and his impact on the organization in the short time he's been there?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

Sure. Leo has been doing pretty much exactly what he said he was going to do. He's been out talking to our customers, to our partners, and to our employees. And to be honest with you, what he's found has not been such a surprise to me, to be frank.

But it's good news. So obviously it's validated what I thought and that's that basically what he's found was that we have a technology portfolio that's deep and broad and well-positioned for the market trends that we're seeing. He basically saw and met with a lot of employees and he realized that they were loyal and talented and incredibly motivated to deliver on customers' needs.

In fact, that's the number one series of questions that he got over and over again from the employees was what can we do to meet customer needs? So they are excited about winning.

And then the last thing and this is something that, again, I like the fact that it was validated, but I thought it was true myself, and that's that customers really like working with HP. And they would love to figure out a way for us to do a lot more with them. Now those are the positive things.

On the areas where we need to work, he basically found that we don't make it as easy to do business with us as we could. And so we are going to continue to be focused on that. So it's somehow in some ways is a very exciting time for HP and I'm certainly very excited about the opportunities.

And the reason for that is over the last 5, 5 1/2 years, we've really had a lot of focus on operational excellence. And we've got the Company in what I consider to be a much better position. I wouldn't say it's a great position. It is not cost disadvantage. It may be cost advantages a bit, but there's still a lot more that we can do, and Leo is actually the perfect complement for where we are in our history because he has got both the operational focus as well as a deep, interest and desire to basically invest in the technology and drive HP for the very long term.

So I guess I would summarize it by saying that you know Leo is basically the right CEO for us at this point in time in our journey.

Ben Reitzes - *Barclays Capital - Analyst*

It was pretty nice of him to raise the pay, too, for employees. How was that received?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

So, the pay increase was -- or the pay restore was very much welcomed. And Leo and I both believe in a high-performance culture. We have been performing well so it only made sense that we would restore those pay reductions that were taken.

And the key here and I get this question a lot is that, obviously, that was completely included in the guidance that we provided.

Ben Reitzes - *Barclays Capital - Analyst*

Great. You know, he said something that -- in the latest call that I thought was pretty interesting. He said that HP is the only major tech company to be so big in consumer and so big and dominant in the enterprise at the same time. And that it is an advantage that can be taken advantage -- that you guys can use to win and that he wants to monetize that advantage or work on that.

What was he talking about? And where do you think he is going with that vision?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

You know, the breadth of our customer portfolio because we go from the consumer SMB to Enterprise, is the strategic advantage for HP. One of the key trends in the market today and is just beginning and it is going to continue to accelerate is the consumerization of enterprise IT. And HP, having such a strong position from a breadth of products as well as technology in the consumer space, allows us to bring the fast innovation cycles that exist in consumer and bring that to the enterprise. So we will be driving faster product lifecycles in the enterprise space.

Conversely, on the consumer side, they benefit from the fact that we've got deep engineering talents on the enterprise side that knows how to deliver for the enterprise and that, then, can feed back into our Consumer business, which obviously gives us an advantage over other companies that don't have both consumer and the enterprise side.

The other thing that is really important is that we have been investing for market trends. And I talked at the Security Analyst Meeting about some of these key trends for Cloud, Converged Infrastructure, more connected mobility devices, security.

And HP has basically been investing into all of those and leveraging innovation across our Consumer business as well as our enterprise business in these spaces as it becomes more and more aligned. And HP is in the unique position to be able to do that.

But it is not just about innovation and leveraging innovation, which is obviously key, but the other key thing for us is the leverage that we get from the scale that we have. Specifically, in the procurement space. So if you think about procurement scale, we are the largest customer of almost every supplier in a common component space.

Now HP doesn't want to be a commodity player. We want the best BOM we can get, but then on top of that, we want to layer on IP that differentiates that industry standard platform. And so that is why you see us making acquisitions with more software content; you see us obviously increasing services attached as well.

So it's the combination of all of these that actually situates HP very well for market trends and where we are today.

Ben Reitzes - *Barclays Capital - Analyst*

Let's talk a little bit about the Converged Infrastructure strategy. How does that dovetail into making HP a leader in the cloud computing movement?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

We launched our Converged Infrastructure strategy just over a year ago and, frankly, it's resonating well with customers. Some of the reasons why it's resonating well with customers is customers are looking for lower cost, more flexibility, and less complexity. And our Converged Infrastructure really delivers into that. We have been building up the assets in this space over that same time frame, whether it is organically with Virtual Connect which helps us to virtualize networking ports. Our StoreOnce data duplication product or our Blade System Matrix.

But obviously as you guys are very much aware, we are also investing inorganically with acquisitions in 3PAR, 3Com, LeftHand, IBRIX. All that helps to build out basically this Converged Infrastructure which is really about having intellectual property in the servers, storage, and networking. And HP is unique in that. There is no one else that can provide that kind of value proposition, consistency and reliability in the market. Because we basically own significant and important IT in each of those stacks.

Ben Reitzes - *Barclays Capital - Analyst*

So in terms of the movement towards the cloud, there's a lot of things thrown around. You've talked in the past about Utility Data Center and Converged Infrastructure. How is it all resonating with the customers, you know, maybe those trying to build private and public clouds? And how is that resulting in enterprise momentum?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

Our customers very much understand and see the Converged Infrastructure from an enterprise perspective as being a very important element of cloud. We have got basically cloud investments that are being made across our entire portfolio, whether it is our enterprise business. Ann is focused on cloud, Todd and VJ focus on cloud. So it is really again across this consumer and enterprise space. Ann is obviously very focused on taking the Converged Infrastructure and making it an integral part of cloud solutions.

Customers are looking for security. They are looking for automation. They are looking for an open architecture. They are looking at the need that they -- they have to be able to go seamlessly between a cloud and a non-cloud, a private cloud and a public cloud. They need to be able to manage their assets that way, and that's really the types of innovations that we are bringing to this.

We in fact have cloud, a cloud solution today. It is basically called Cloud Start, in the enterprise. It actually allows us to basically stand up a private cloud in 30 days. It is leveraging our Blade System Matrix software from a management and allocation of resources perspective. That's in the enterprise space.

In the consumer space, it is really about the proliferation of connected mobility devices and the fact that customers and consumers basically want to get access to their data or print their data kind of anytime, anywhere anyhow. And you see us building out cloud in ePrint, as an example, on the printing side or in the case of Todd, obviously the acquisition of the webOS is absolutely integral to our concept of kind of a personal cloud, a way for consumers to access their data, again anytime, anywhere, anyhow.

Ben Reitzes - *Barclays Capital - Analyst*

Well, on the enterprise side, you just had a really big gross margin expansion and really beat all of our estimates for almost every line in enterprise. So I guess what do you -- what's going on with the enterprise? And you know, and can you talk about networking as well? Like, can it continue and can you give us a networking update if networking helped pull along all this upside?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

So networking is absolutely critical. Not only is it critical to the Converged Infrastructure since it's a key element of an intellectual property and the networking piece of Converged Infrastructure, but it is also very positive for HP. Because obviously the networking gross margins are roughly or better than, I guess it's better to say better than double the HP corporate average gross margins.

So that opportunity for us to grow, gain share, deliver choice to customers and at the same time expand gross margins, is from my perspective, a home run. Our 3Com acquisition is ahead of plan both on the top line as well as on the bottom line, and with the 3Com acquisition we actually got three really important assets.

We got the data center switching asset that now allows us to have a complete product lineup from the LAN edge with our ProCurve products, all the way up to the data center. And that has turned out to be incredibly important, not just from a Converged Infrastructure perspective but now it's giving customers more confidence in buying our ProCurve products, our LAN edge product.

And in Q4, we are up over 50% on the ProCurve side of the business and margins are better than they were before. So instead of feeling like the competition is putting pressure on margins, in fact, we are getting a lift in the ProCurve space on the margin side and doing above plan, obviously, on the margin side from the 3Com. So that is one asset.

The other asset is a TippingPoint asset. TippingPoint is basically an asset in network security, and you've seen us do a couple of other acquisitions in this space and you'll see us continue to kind of build out both organically and inorganically our play in the security space. So TippingPoint is a great asset, grew more than 40% in Q4. So good, good progress, good asset there.

And then the last one is actually the fact that 3Com has over 2,000 highly talented R&D engineers in China that help basically deepen the R&D base and the R&D set of capabilities that we have in the networking space. So again, home run. Opportunity to grow, opportunity to expand margins, opportunity to give customer more choice in networking and Converged Infrastructure.

Ben Reitzes - *Barclays Capital - Analyst*

And overall in the enterprise, it does seem to be clicking. Anything else going on there that you want to point to and kind of continue?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

What I would point to is that we've got the right strategy. We've got the right set of products. We've done a good job of anticipating where the customer needs would evolve to. There's still more that we can do in this space, but we are very well situated.

Ben Reitzes - *Barclays Capital - Analyst*

My next question is around acquisitions. It might be a good chance for you here to -- what is HP's kind of parameters around an acquisition? And what should we think of you guys doing now in the future? Is 3PAR size or -- how do you look at it? Because the big worry is are you going to do a huge deal now with a new leader or what is the strategy and what should we look for?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

Yes. So from the -- step back, we look at balancing our organic as well as our inorganic investments, and we've done this historically and you should clearly expect us to continue to do that. I would talk about the fact that we are investing organically in R&D, so that it's going to grow faster than revenue in '11. We are also going to continue to look at acquisitions.

And we've talked over the past about the way we look at acquisitions and it hasn't changed. We look at whether or not it makes sense strategically, economically, and operationally and we are not changing that at all.

When you say, okay, well, kind of characterize what types of acquisitions that you would be interested in? I would characterize them as being heavily software-oriented, and that doesn't mean software that only goes into our software business unit. It means that on this base of industry standard componentry, we want to have a differentiated value proposition, and that comes from making acquisitions that deliver that kind of intellectual property and they tend to have a heavy software content to them.

If you look at our past acquisitions, and you may not think about them the way I think about them, but I think about 3PAR, 3Com, LeftHand, IBRIX as basically being software acquisitions. I know that hardware came as part of the solution, but it was industry standard hardware. So when we evaluated it, we didn't evaluate it on the hardware piece, we evaluated on the software and the intellectual property that we were going to get in those assets. And so, again, you will see us do that and that will obviously help us from a margin accretive perspective as well.

Ben Reitzes - *Barclays Capital - Analyst*

Is that not part of the -- is there some -- you know, some companies say definitely not over X or you know definitely not transformative or something to those lines?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

I wouldn't eliminate acquisitions purely on the basis of size. That is not how we look at it. We look at where are the areas where we want to build out our product portfolio, and we look at also where are we in terms of other acquisitions and the integration of them to make sure that we have the capacity and the bandwidth to get the integration done. Because we've obviously got -- you've got to do that well or it's really not worthwhile.

So I think that I wouldn't think about it as limiting us in terms of a dollar amount. I think it -- I wouldn't really -- I would look at it in terms of what are the key software's intellectual property assets that would be very helpful to HP's portfolio and that's really where you will see us make moves.

Ben Reitzes - *Barclays Capital - Analyst*

I just wanted to hit on a few other big businesses. PCs, in general, you have been managing very good margins and ASPs while the units have slowed. What -- do you think that business picks up again? And how do you look at that business strategically right now as we sit, going into FY '11?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

The strategic perspective around PCs is really around is it an attractive business to be in, and the way I measure whether or not it's an attractive business to be in is I look at the return on invested capital. And if you actually look at 2010, fiscal '10 for us and look at the return on invested capital that PCs brought to HP, they delivered a multiple of their cost of capital.

So it is a good business. It is an asset-light business and therefore the margins don't have to be as great for it to be a very attractive business for us. So I would say go grow. Grow as much as you possibly can. In that space with the margin structure that we have laid out, it is a very attractive business and I think it will continue to be an attractive business.

We are obviously number one worldwide in clients. We are very much focused on investing in our core, but we are also investing in PC adjacencies if you think about the webOS assets that we bought. That is really about a PC adjacency.

We are also very much focused on continuing to expand in emerging markets. We've got the right distribution, and we are putting together the right product sets for those emerging markets.

We are putting design centers in key locations so that we stay close to customers and that's obviously helping us a lot. In fact, in Brazil we took the number one position in calendar Q3 so we are making good progress there. The growth going forward, we believe is -- the majority of the growth over the next three years is going to come from emerging markets and the margins, typically, in emerging markets are better as well.

And then the other piece I guess I would throw out there is in terms of our PC business, and I think it is also true of our printing businesses, is that we've got a nice mix of consumer and commercial. So that gives us nice diversification so if the Consumer business is softer and you've got commercial that basically can offset it and vice versa. And so that has given us a really nice platform from which to be able to grow.

Ben Reitzes - *Barclays Capital - Analyst*

And dovetailing into printing, you had a really strong quarter in printing with upside in margins and revenue. I wanted to get your perspective on the business which is a big question, but one of the things we've been talking about lately is how printing is moving to a service or a service adjacency is really helping grow that market in managed print services.

And I was hoping you could just maybe give some comments on printing overall, but then, talk about how maybe services could help HP and impact you in printing, in particular.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

We see the printing market growing over the long term probably about 3%. We think that HP can grow at or better than the market in 2011 and beyond, and it is important that you understand how we model and how we think about setting up our business because we use fairly modest market expectations when we build our plans. And then what we do is we make sure that we've got capacity on the side that would allow us to take advantage of opportunities as they arrive. And that is what, obviously, gives rise to better than market growth.

So that's really what is going on from a printing perspective at a high level. We will continue to invest in innovation in our core -- traditional core businesses around consumer and commercial. I mean, the web connected printer, the wireless printer. We have got a fabulous business ink value proposition that is great for customers because it cuts costs down roughly in half in many use cases as well as gives us obviously great margins.

We've also invested in basically in being able to print from smartphones and unlocking the content in smartphones. But it's also about, as you mentioned, the more contractual service-oriented businesses. Whether that's graphics, managed print services or retail publishing. Those are businesses that are long-term contractual. They typically, but not always, typically have hardware invested longer-term and then get 100% connect on supplies. And so that's obviously a very attractive market for us.

Just some proof points around that, our managed print services basically doubled this year as did our graphics business. I'm sorry -- didn't double, I'm sorry. Double is the wrong expression -- grew double digits. Our graphics business grew double digits and our installed base for retail publishing more than doubled.

So making great progress in that space. And that is, again, a margin-accretive business in the printing space. So it is a very attractive business for us. It's really all about driving and then benefiting from the analog to digital conversion that's taking place and building out the ecosystem for printing, and making sure that we've got a printing offramp anywhere, anytime, and anyhow someone wants to print.

Ben Reitzes - *Barclays Capital - Analyst*

Great. Wanted to also just quickly ask about services. It seems bookings -- what are bookings doing? Are they growing? One of your largest competitors had bookings in outsourcing actually decline quite a bit. Nobody cares, but wanted to see what your bookings have been doing and whether that's something that stands out and how EDS is going?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

We have obviously been very focused in making a lot of investments in the services space over the last few years since we acquired EDS. And our bookings in fiscal '10 were very strong. We had the benefit of some pretty significant renewals.

But nonetheless our trailing 12-month book to bill ratio is well above 1. So we've got great momentum there and we expect that momentum to actually continue into '11. The quality of our deals in the funnel are very good and our funnel is strong. So the kind of leading indicators around the services business is good.

Obviously this year, services were a bit slower from a revenue growth perspective. We ran -- we believe we operated roughly in line with the market, but we have been making the right investments, both in cost structure and new offerings in expanding out our coverage so that we actually expect to accelerate growth as we move through 2011.

The other key piece of the services business is the product pullthrough. That was a key strategic assumption that we made when we acquired EDS, and that product pullthrough is up over 50%. So we've got great momentum there, and that's really basically proving that the Enterprise Services can pull through our entire portfolio.

Ben Reitzes - *Barclays Capital - Analyst*

So why not give out a trailing 12-month number from now on? If it's at -- it sounds like it -- just growth alone is a differentiator versus some of your peers in the outsourcing space.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

We struggle with what information we think is going to be most useful, and so what we've decided is that providing the top line and a margin expectation or guidance and then obviously reporting the actual quarter to quarter is a more meaningful set of numbers to provide folks to be able to model the business.

Ben Reitzes - *Barclays Capital - Analyst*

Well, I wanted to get into some financial questions. Cash flow is one of the areas that's been a little weak versus EPS last year. It was roughly $3.50 per share on earnings of $4.58 or -- and this year you are guiding for free cash flow to be around $4.00 as of your Analyst Day.

I'm sure that went up with your earnings guidance maybe, but -- and your earnings guidance is over $5.25, roughly. So there's this gap.

Now, for example, so I was wondering if you could explain why free cash flow is below EPS? And is it actually going to hockey stick and get better or what is the dynamic there?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

I'm actually pleased with the cash flow. We will continue to have a strong year in '11 after having what I consider a strong year in '10.

The free cash flow, obviously, is going to be driven by our GAAP income, net income. And it tends -- it has tended to trail a bit the GAAP net income because of the timing differences around basically two key dimensions.

One is restructuring charges. We take restructuring charges that hit GAAP net income in one period, and the cash outflows associated with those restructuring charges basically happen in and it can happen in a different time period. And you are definitely seeing that happen with some of the restructurings that we have taken around our Enterprise Services business.

And then the other piece that is also a timing difference in some sense but is also, I think, good news. And that's that our financing receivables have continued to grow and that really comes from the product pulled through that we are getting in the services space and are basically financing that product pullthrough for our customers.

So I will take that kind of timing difference because it's like a subscription model in which you pay for the cash flow upfront, but then you get -- it gets paid back to you over time.

Ben Reitzes - *Barclays Capital - Analyst*

Is there anything that you're doing in particular in FY '11 that will make cash flow improve in particular from the level? I mean you've guided for growth. Is there anything in particular that is causing it to get stronger this year?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

We are continued to be focused on cash flow. It's actually part of our compensation and so with that kind of level of focus, you will continue to see us have strong cash flow years.

Ben Reitzes - *Barclays Capital - Analyst*

With regard to EPS, you guys pretty much have been growing midteens and it seems like you are guiding for that for the upcoming year. Is there any reason to think that, long term, that's not a pretty good growth rate for HP and how you are set up? And into that, you have higher OpEx this year and you're still doing -- you are growing your OpEx a little faster than usual under the new payment plan and the new R&D plan.

So in that context, you are still doing 15 like over the long term and with the increased spending in R&D and OpEx, are you -- you think that's a good long-term range?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

Let me address the OpEx question first and then I'll talk a little bit about EPS because I know their are a lot of questions out there about the OpEx spend and, to be frank, some concerns that folks have that it will get ahead of us. And I just reference back to the Security Analyst Meeting, the fact that we talked about we were going to increase R&D fast, R&D and sales faster than revenue growth. And our plan is very much to do that.

Some of the R&D growth is clearly coming from acquisitions, and some of it is new organic investments. And we are making those investments basically over the course of the year. They are not frontloaded.

From a sales perspective, we started making investments in sales in the second half of 2010, and HP is nothing if not prudent and analytical and measured about the way we make these investments. And so, we are monitoring those sales investments very carefully to make sure that the assumptions that we had about the return we would get are, in fact, getting met. And if they are not, tweaking them. Either pulling back in one area or doing something a little bit differently in another in order to make sure that we are getting that investment return.

And if we're not, then we will grow our sales either differently or not as much, and so it's very focused and very analytical. I have regular reviews in terms of how, what kind of return are we getting? And it's a delayed return, but you still can monitor it basically rep by rep.

Ben Reitzes - *Barclays Capital - Analyst*

R&D growth, I mean, you are beating in the Enterprise, now this is the segment that people want you to beat in and PCs stopped beating. In the middle of the decade PCs were the thing that was beating every quarter. There's no R&D there almost. I mean there's 2 or whatever 1%, and now you are beating in the areas that have all the R&D, too. Isn't there just a natural mix shift there?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

There is a very positive natural mix shift, and that will take me then to, if I talk about the EPS growth, we think we are well positioned to basically continue to give meaningful EPS growth over the long term. And it's really coming from a number of different dimensions. Some are helping, obviously, the growth margin line significantly, business mix, acquisitions that we've made, the cost initiative that we've got in our pipeline of cost initiatives the supply chain ones, the services ones are all helping gross margins.

And so, that gives us this natural expansion in gross margin that some of which, of course, will drop to the bottom line and some of which will come back and be reinvested in R&D and sales. But in a prudent measured way so that it doesn't get out ahead of us. But that provides us with that opportunity to continue to expand EPS for the long term.

And then on top of that, we are going to continue to be active in our shares. And that share repurchase then gives us an opportunity to deliver shareholder value through that mechanism as well. What's important then is that HP, with its portfolio that it has, the cost initiatives that are still to come, the business mix that -- and the market trends that we believe that we are going to be able to continue to win and lead, and expand EPS at the same time.

Ben Reitzes - *Barclays Capital - Analyst*

Anything -- I was going to ask you about buybacks. You mentioned it. It's an important thing that you've done recently is what do you think the pace will be going forward?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

We absolutely bought in advance in Q4. We spent $4 billion. In total last year we spent $11 billion. So it was, I think, our second largest year of spend.

We will continue to be active in our shares in '11. There is no question about that. The real question is how many of the dollars that we are spending, how many shares are we going to get back? What we've modeled is a pretty robust uptick in our share price. And that is because the fundamentals of Hewlett-Packard would suggest that the share price is undervalued today.

If in fact, that uptick isn't as robust as we've modeled it, there will be upside in the EPS because, obviously, we will end up buying back more shares. And we will have a lower weighted average shares outstanding and we will keep you updated as we always do. We will keep you updated as we go through the year.

Ben Reitzes - *Barclays Capital - Analyst*

I want to move to Q&A from the crowd, maybe. But you want to say anything to conclude you are buying back --. That was a pretty bold statement you just said that you know your confident your share price is going to go up and, obviously, we'd all like to see it work.

Do you have any concluding comments about your confidence level and what your view is for these investors who are hoping the same thing?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

The fundamentals of HP haven't changed. Our sustainable competitive advantages haven't changed. We have got a broad diversified portfolio. We've got global reach. We've got scale advantages that no one else has. We are making more investments in R&D and we are making more investments in terms of building out this $1.6 trillion total addressable market.

We know we don't cover it as effectively as we can and we should. So we are making those investments. And I just, at the end of the day, those fundamentals are what are going to drive our EPS expansion over the long term, and that says that we've got a share price that is not really baking in those fundamentals and at some point it will, as we deliver quarter in and quarter out. And that is what we're focused on doing. I'm not focused on the share price day in and day out. I'm focused on making sure that we deliver the quarter and continue to make the right investments. And we do that, the share price will respond.

Ben Reitzes - *Barclays Capital - Analyst*

Great. Are there any questions out there? Right here. Go ahead.

QUESTIONS AND ANSWERS

Unidentified Audience Member

You continue to talk a lot about changing your business mix, higher gross margins, and at the same time you are talking about reducing your commodity exposure. Over the next five years, could we see you taking strategic alternatives, not unlike one of your larger competitors did in PCs a few years ago?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

I'm sorry, I didn't hear the last part of the question.

Unidentified Audience Member

Basically, one of your competitors exited the PC business for the same arguments that you are making right now. How strategic is that business over the next five years to HP?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

What is absolutely critical for us in the PC business is it does a couple of things for us. Obviously, it gives us scale, procurement scale. That's important and that procurement scale covers our entire business to a large extent; but it's also got to deliver its cost of capital. And as long as it's as attractive as it is today in which it is delivering multiples of its cost of capital on an ROIC basis, it is a very attractive business to us. And I don't think you'll see us exit it.

If at some point, we were unable to generate that kind of return, then we would have to seriously consider it. Like any other business that we would look at, we would look at whether or not it is, in fact, got either is delivering or has the potential to deliver its cost of capital.

Folks that have exited the PC business in the past were not making the kinds of margins we are making in the PC business. We've got industry-leading margins.

Ben Reitzes - *Barclays Capital - Analyst*

It was a much different margin at IBM back then.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

Absolutely.

Ben Reitzes - *Barclays Capital - Analyst*

I'll repeat it. Just go.

Unidentified Audience Member

(inaudible) (inaudible -- microphone inaccessible).

Ben Reitzes - *Barclays Capital - Analyst*

Question is about cash. What is your US cash right now and what do you think of the tax holiday?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

I'm all for a tax holiday. (Laughs)

Ben Reitzes - *Barclays Capital - Analyst*

What has to happen?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

Let me talk about the cash position first before I get into the politics. In terms of our cash position, our cash position is still predominantly outside the US. But I think it deserves some discussion, because even when we bring cash offshore into the US, we pretty much immediately pay down debt. And so it's not as good a meaningful question in terms of how much is outside the US. I think it is almost always going to be predominantly outside the US.

In terms of the tax holidays, you know, we obviously benefit significantly from that and would lobby to keep that position. But there will be other things that change and we will -- I've got a fabulous tax department, to be honest with you. They are very good about figuring out how to set us up so that, A, we get the cash back into the US that we want at a very low tax rate, but also obviously setting the Company up and making sure that we are taking advantage of the tax opportunities that exist around the world to optimize our tax rate.

Ben Reitzes - *Barclays Capital - Analyst*

We've still got a few minutes if there's any more. I'm going to throw one -- there's one right here.

Unidentified Audience Member

Thank you. Given where your stock is trading in the multiple, has there been any thought about changing the policy in the use of cash? In other words, moving toward more of a combination of dividends and buybacks? For example if you went to a 30% payout, your dividend yield would be 3% to 4% which would clearly bring in more buyers to the stock. It would be a very attractive yield to today's market. Is there any consideration done to changing in that perspective?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

We absolutely look at our dividends at least annually, and we will continue to look at whether or not it makes sense to increase the dividend or to change fundamentally our dividend policy.

Right now, the way we weigh it, we actually think with the shares where they are priced today, share repurchase is actually a better vehicle to deliver shareholder value. But that is not to say that the dividend policy isn't something that we look at and would think about whether or not we should make a change.

Although I have to be honest with you, if we asked for a show of hands in this room on those that want a higher dividend and those that don't want a higher dividend, I think you would find a real mix. At least there are times when I'm sitting in buyside meetings where I've got three or four people and one side is pushing hard for dividends and the other guy will say at the end of the meeting, wow, we're not actually of one mind in this firm on whether or not we want more dividends.

So it is obviously something that we consider and that we want to make sure we get the right balance.

Ben Reitzes - *Barclays Capital - Analyst*

I was just going to ask you -- you know, we all get asked about Europe and you did -- you actually beat my numbers pretty good recently in Europe. So what is your take on what is going on there, you being the largest IT company in Europe?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

So you saw the results in Q4. Pretty balanced results for us across the world, obviously, in Europe as well. So I think that's what I would leave it at is that we have the right portfolio. We've got real great value propositions that, frankly, help a lot of Enterprise customers in terms of reducing costs and increasing flexibility and that gives us a competitive advantage, even in what others would view as a softer market.

Ben Reitzes - *Barclays Capital - Analyst*

Well, thank you so much, Cathie. I mean, it's your third year in a row with me here on this so, I appreciate it. We thank you.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

Thank you.
