

FINAL TRANSCRIPT

Thomson StreetEventsSM

HPQ - Hewlett Packard Co

Event Date/Time: Jul. 13. 2011 / 4:00PM GMT



Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

CORPORATE PARTICIPANTS

Tom Joyce

Hewlett-Packard - VP - Marketing, Strategy and Operations

Charly Kevers

Hewlett-Packard - IR

CONFERENCE CALL PARTICIPANTS

Brian Alexander

Raymond James - Analyst

PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the Hewlett-Packard Technology Series Webcast, hosted by Raymond James. My name is Crystal Lynn, and I will be your conference moderator for today's call. At this time, all participants are in listen-only mode.

Mr. Brian Alexander of Raymond James will be facilitating a question and answer session after the presentation.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host for today's call. Mr. Brian Alexander from Raymond James. Mr. Alexander, please proceed.

Brian Alexander - *Raymond James - Analyst*

Okay, thank you Crystal Lynn, and thank you to Charly Kevers and Tom Joyce for letting Raymond James host Hewlett-Packard's third Technology Series event for 2011, which is titled "converged storage without boundaries" and will focus on a few different topics. Key trends in the storage market, HP's storage portfolio, strategy and competitive positioning and how storage fits with HP's converged infrastructure strategy.

The webcast will begin with a brief presentation by Tom Joyce who is vice president of marketing, strategy and operations for HP Storage. Tom has an extensive experience in the storage industry, recently led the integration effort for HP's acquisition of 3PAR. Prior to joining HP, Tom was CEO of Akorri, which is a start up software company specializing in virtualization and storage management. And prior to Akorri, Tom was a VP of marketing, product management and business development at EMC and held several other positions during his EMC tenure.

So we're going to turn it over to Tom for his presentation. After that, we will have Q&A. I'll ask a few lead off questions, and then investors on the line are encouraged to jump in with any questions as well. We'll also mix in questions from those on the webcast. So with that, take it away Tom.

Tom Joyce - *Hewlett-Packard - VP - Marketing, Strategy and Operations*

Okay, thank you, Brian. Before I dive into my presentation, I'm going to take a few moments on the forward-looking statement slide. Charly, you may have to help me advance the slides because my Internet connection just inconveniently dropped out. There we go. Okay.

Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

Charly Kevers - Hewlett-Packard - IR

There you go.

Tom Joyce - Hewlett-Packard - VP - Marketing, Strategy and Operations

Thanks. So I apologize for that. Seems to be coming back. Okay, the key takeaway here, you've seen one of these slides before, I'm sure, is that no new information on HP's financial performance during the current quarter or future periods will be provided. Some of the information provided during this call may include forward-looking statements that are subject to risks and uncertainties and actual future results may vary materially.

So where I would like to start is looking at what HP Storage has accomplished over a period of time. Most of this presentation as the initial slide and the title indicated is going to be talking about the next era of storage and what we're doing to attack that. And a tremendous amount has changed, especially over the course of the last year to 18 months in the HP Storage business. But we start with a tremendous base of accomplishment and capability and some of the metrics I wanted to highlight are on this chart here.

We're at an interesting milestone right now with our flagship EVA product. We've got about 100,000 units out there in the field right now. We're at a ten-year anniversary with that product. If you think back, if you're familiar with this technology, it was the first successful virtualized storage array. And it was the first by a significant number of years. So there's a tremendous legacy there in terms of expertise and experience with rolling out new classes of storage technology, especially in -- with regard to virtualization.

And when that product was shipped, there was a significant amount of risk around the concept of virtualization and virtualization and storage in particular. And I think there's absolutely no question about that product having been successful over the course of its life, so that's a significant milestone for us, that ten-year period. We have a tremendous amount of scope and scale around our business in terms of global reach. And many of the metrics on this chart kind of bear that out in terms of the amount of capacity we ship each day.

And the penetration we've got in various kinds of industries. As you see here, we've got tremendous penetration in the electronics industry, the automotive industry and frankly, that extends across a variety of other industries. Interestingly, if you look at some of the new things that we've accomplished, we've got a lot of penetration into industries which we think are going to be the leading lights of this next wave of storage consumption and storage innovation. In particular, service providers and telecommunications. Now some of this comes from 3PAR and we'll talk to that in some detail as we go forward.

But you'll note on the bottom middle of this chart, about four out of five of the top Gartner Magic Quadrant service providers have bet their business on 3PAR, and built their business on 3PAR. And we would argue that one on of the reasons for their success is the kinds of efficiencies they get out of technology like 3PAR. Same is true for telecommunications. So the bottom line here is we start this next wave of activity with a tremendous base, a tremendous legacy in storage, a tremendous amount of IP and know-how. And global scale and scope in terms of the ability to deliver service and support this class of technology.

So not a bad place to start from. Now the rest of the presentation is really going to be about what about now and what about the future. As I indicated there has been a lot of change over the course of the last year or so. This chart identifies who we are, identifies frankly who the leaders of the new HP Storage organization are. It really started I believe with Dave Donatelli coming on board. He actually had the storage business role in under him in addition to other elements he had. At the beginning of last year, so not a really significant amount of time ago, so a lot has been accomplished in a short period of time.

And then we've done a lot to add new thinking, new blood, new capability, not just at the top level of the HP Storage organization but frankly down throughout the organization. I came in to this group about March, April last year. I had initially come on board



Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

after having worked for Dave for many years over at EMC, and I was working on 3Com and he asked me to join the effort with the HP Storage organization at that point in time. We've also brought in a number of other folks, clearly David Scott is a major addition to the team. He was the CEO of 3PAR.

Prior to 3PAR, he had a legacy at HP, so it's kind of like coming back to his roots to a large extent. So he had a good base of knowledge about how HP operated and has brought in a tremendous amount of new thinking. Reporting to David, in addition to myself, are three engineering unit managers. Neil MacDonald is a long time HP executive. He manages the EVA business, XP and a number of other areas. Peter Slocum was the VP of engineering for 3PAR, and he manages 3PAR primarily today.

Bill Philbin came directly from Netapp. He'd been at IBM and elsewhere prior to that. He is in charge of what we call the virtual storage unit and this includes a number of our other new technologies, in particular, IBRIX, LeftHand and our StoreOnce D2D technology, as well as some other components. So as you see, we've got at that level, a lot of new blood that's been brought in, especially just over the course of the last year. And below them there's a lot of new talent as well.

I think that reflects a desire to change our posture and position in the storage industry. We need to change. I think Dave recognized that, and certainly everybody else that's come in has recognized that we want to take that legacy, but take it to an entirely new level. And really lead the next wave of storage activity. Frankly, we think the time is right. Storage is a very dynamic market. And I think one of the reasons it is dynamic or our position as to why it's dynamic is that we're at a point where a lot has changed and a lot has to change.

And if you look at those things that the customers that I talk to, that we all talk to everyday are struggling with, there's a lot of opportunity and a lot of new technology out there for them to deal with. Certainly virtualization has changed the game, cloud is next. IT as a service, frankly in my mind, is the -- if you put the buzz word, cloud, aside, IT as a service is really what a lot of these companies are trying to get to.

How do we manage our business like a service, like a service provider. How do we use cloud, cloud concepts, cloud technologies to make it more of an agile service business. Less siloed, less rigid, less unresponsive to the changing needs of business. How do we bring efficiency in that cloud and service provider folks have been innovating with and put it into the mainstream.

This is what the companies we talk to want to do. And in addition to that, there's this concept called "big everything". Right now, I think as anybody who observes the industry can recognize another significant buzzword area of focus is big data. As I'll touch on in a moment, I think that that's a microcosm of what our customers are dealing with. Big data is the concept of dealing with huge amounts of data and leveraging that, harnessing that for analytical purposes that can help your business or create new businesses.

But that scale and scope and new technology and new application requirement is just one example. There's many other areas of scale you know breaking our customers' ability to do their job. And I think that one of the things we observed, certainly the team that's on board now and Dave Donatelli observed coming in here, was that one of the reason they struggle -- customers struggle with these things is that the storage technology they're using, in most cases, was architected 15 or 20 years ago.

That's not just true for our competitors, it's true for us too. If you think about the leading storage platforms that are installed out in the market today, virtually all of them were not architected in this century. And so, if you think about that, many of them have been brought forward and had feature functionality added to them quite successfully. But there are points at which architecture matters. And there's always a point at which there's a requirement to look at what's new. And is it time to move onto the next generation of architecture.

Our opinion was and has been, continues to be, that the answer's yes. Now's the time to bring out new storage technology. And frankly, for HP to reestablish our position as the top player in the storage industry, we need to make a bet on new storage technology. And if you look at what we've done, and if you look at what I'm going to present to you, that's exactly what we've



Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

been focused on. Is how do we move to a new class of storage technology that can game change the industry, game change our business, and game change our position in terms of market share in the storage space.

Now I think that one of the big drivers, as I mentioned, is this notion of big everything that just about every application that customers are dealing with and certainly all the new things they're trying to accomplish require a different kind of scale, scope and capacity than ever before. And I think that is -- that applies not just to this notion of big data, it also applies to lot of other applications by industry. In the financial services space, you can point to things like high frequency trading. In the medical space you can point to things like radiology, medical imaging, electronic medical records, et cetera. All require new approaches, not just to storage but to IT in general.

It kind of runs across the gamut of industries that we touch. Big everything is this -- is basically a change that's touching application by application and is breaking a lot of what folks have in place and requiring them to look at different technologies, so we think it's an interesting time in the industry from that perspective. If you look at storage in particular, what it means is that we believe the era of the storage silo is over as this chart indicates. I don't think we're alone in that regard. You hear similar messaging from analysts and others throughout the industry.

The question is how you actually go forward and fix that. If we look at the different solutions or approaches that are out there, there's a number of different thoughts. These are a couple of them. There's the scale up, monolithic approach to storage, kind of adding new functionality for big data and things like that to existing arrays. Frankly, we don't think that's the solution that's going to win long-term because at the end of the day, you're still strapped into a monolithic scale up bounded storage environment.

Many times we're talking about technologies like an EMC CLARiiON, a two board architecture that's always going to be a two-board architecture. You can evolve it, you can change the name, you can add feature functionality, it's still a monolithic two-board architecture. And then you look at things like unified storage, which solves certain kinds of problems but don't solve all the problems. Again, architectures that were designed to provide simplicity at the low end, probably don't scale up to give you the most elegant and agile and efficient cloud architecture that will allow you to build the new businesses that you need to go build.

And lastly, we've observed that probably the place that most customers end up wasting the most money is in management. I have a lot of experience in management of storage at EMC and in piloting a start up in this space, and I would tell you that the investments customers make in management in terms of software, tools, integration, people, they dwarf a lot of the investments they make in the actual hardware.

So this is one of the places that there's an opportunity to change things by bringing in simplicity and efficiency and that's what we hope to do with 3PAR and some of the other technologies that we've brought on board.

So where are we? Well, I think if you look at what HP has accomplished, and certainly what the focus has been during Dave Donatelli's time here, our objective is to bring together all the resources of HP's datacenter and technology businesses to help us win. But we're also approaching it business by business. HP clearly has a number one spot in the server space and service for virtualization and have a significant market share lead and now more recently in Blade server technology, have clearly established the number one spot.

Since Dave got here, the Company has made the decision to go do that again. And do it in the networking space. If you look at what's been accomplished since the integration with 3Com, the existing pro curve technology assets and other security assets that HP has brought on board for network technology, we've already started to game change that business. And change our market share position pretty significantly, and that's a very short time window that that's taken place in.

Next on the list is storage. So over the last year, our objective has been to look at how we can repeat that behavior in the storage industry over the next few years. And to set us up for multi-decade run in the storage space. Now to do that we've needed to



Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

change not just our people and our -- bring in new technologies but change how we think about our mission. Up until just a few weeks ago, we were called StorageWorks. We've rebranded the business as HP Storage; you'll hear me referring to that throughout this presentation.

This seems like a small thing; it's a big thing. It's something that really kind of says to our folks, to our customers, to our channel partners, look, we're going to be a different kind of storage company than you've known us as in the past. Expect different things from us, and frankly expect different products and solutions and behaviors from us. This builds on a legacy of StorageWorks, but it brings in a tremendous amount more.

So this a beginning of a big shift for us in terms of how we approach the market and how we think about our business. Now to accomplish that, we really have a two-prong strategy. One of the things that we have -- that many folks have observed and certainly I've observed myself is coming in here, is that the HP Storage portfolio is very complex. We have a lot of products. Frankly we have one of everything, and we have two of some things. We cover the waterfront from very low end SMB to extreme high end.

And everything from tape to solid-state disk. It's a big portfolio. What we've had to do is say look, how are we going to focus now within that portfolio. What are the primary things that we're going to do. And we're putting most of our focus now on our array product lines. Which frankly represent about half of the total revenue of the business, and saying look, we really have two kinds of families of array products. Or as I indicated, a two-prong strategy.

The first part is what I describe as the established platforms. And these are the things folks know well from HP. At the low end, we've got the MSA product line, which is a tremendous channel product, low price point, especially growing very rapidly in emerging parts of the world for direct attach or low end SANs with tremendous simplicity.

On the right hand side of this chart, you see the other end of the spectrum, which is the XP platform. This is our extreme high end, six 9s, always on, datacenter class system that we've had for many years. Last year a decision was made to fully refresh both of these products. And we did that. So one of the questions that's come out since we bought 3PAR is what's your commitment to these quote unquote established products. And the answer we've given is that they're staying -- not just staying in the product line, we're continuing to invest and frankly, increasing investment in developing these product lines and introduced full refreshes of these last year.

Most recently the XP in the fall. We also said, look, we're going to do the same thing with the EVA. This was just brought out and announced last month. So we've done a full refresh of the EVA, now called the P6000 EVA. And we can say that look, we've accomplished the mission of refreshing all these product lines and demonstrating to the established customer base that we're there. And we will continue to be there and we're going to provide these products.

Now what for? For established datacenter use cases. For things that customers have used them for in the past. Things like exchange. Things like SQL. Things like ERP. All the things that customers need these products for and they're proven for, we're continuing to make those investments. Now the second prong in the strategy is these new converged storage platforms as we call them. This is the bet on the future. This is how we're going to game change our market share position and provide a whole different set of solutions for the customers that we serve.

There's four products in this converged storage platform family. 3PAR P4000 LeftHand, X9000 IBRIX and StoreOnce for backup and deduplication. So I'm going to briefly go through each one of these and touch on what the benefits are. 3PAR established itself very strongly in the service provider space at the high end. So as we look to this trend towards running your business like a service and building clouds both public and private clouds, 3PAR has already had a footprint there. And the footprint was well established.

The economic advantages of that are well established. These service providers would not have made bets on 3PAR unless they really understood the economics of that business. Now, what we also saw with 3PAR is a marvelous general-purpose storage



Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

array that could be applied to virtually any use case that's out there. And 3PAR was winning business against the much, much, much larger incumbents and in many cases for general-purpose storage use cases. As it turns out, if you can run your datacenter, run your storage plant with half the amount of capacity, physical capacity, that's an attractive model for anybody.

So what we saw here was an opportunity to bring on the capabilities of 3PAR into HP's go to market model and expand it significantly. So whereas 3PAR was laser focused on high end, especially service provider, we're expanding that. We're bringing it to the world that we serve. We've already grown their mid-range product line in terms of shipments very significantly. And we've introduced it to our channel in a very big way. I think we've publicly said we've trained over 10,000 internal and external sales and channel resources as well as support people.

We're on a mission to bring this to a much broader set of go to market resources than 3PAR was able to do on their own. LeftHand and IBRIX and StoreOnce have a couple of things in common that I'm going to touch upon. First off, they're all built in software. They're designed in software and designed to scale out. Now what that means is that we saw an opportunity to run these on existing platforms that HP had.

Things like ProLiant and things like BladeSystem. So for each one of these products, what we're trying to is drive convergence at a level where you can basically get them in two form factors. You can get LeftHand SAN that's built on a modular ProLiant class machine. Or you can get it on BladeSystem. So today, with LeftHand, we can build you a SAN where you buy two nodes that are built on ProLiant and you add nodes as you need to scale up and they fluidly go into that SAN, reorganize themselves and provide a very simple way to grow your business in SAN.

If in fact you want to do that on BladeSystem, it's the same exact experience, just doing it with blades. If you look at IBRIX, which is our scale out NAS product, it's the same kind of experience. We've got a modular built on a ProLiant class machine model, buy two of them, scale up to as many as 16 petabytes of file storage, which you can use in a whole variety of ways. Or you can run it on a blade model.

So these are very good examples of when we talked about converged infrastructure or talk about converged storage, how do we start to get leverage across our business and do things in a different way that the traditional storage company. StoreOnce is our deduplication technology. This came out of HP Labs. It's something that we really kind of jumped into with both feet only about a little more than a year ago. And recognized that there was a tremendous asset there in HP Labs that we could use to go after the incumbents in the deduplication space.

Again, it will run right on top of a ProLiant class machine. That's how we ship it today as a product called D2D for disk-to-disk backup. But that software can be deployed in a variety of other ways as well. We've publicly talked about the fact that we're going to put it into our Data Protector backup software. We're going to put it on top of IBRIX. We're going to put it in a variety of places. And those are things that frankly the other folks in the deduplication space can't do because we've got a technology that's purely built in software. Designed to scale out. And designed to run on industry standard technologies like BladeSystem and ProLiant.

So the bottom line here is that these are our products for the future. This is where our growth is going to come from for the most part. And this is how we simplify what HP Storage is about. When we go out and sell and market today, our messaging is built mainly around these things. And what we're finding is they open up a tremendous amount of doors with existing and new customers and channel partners and for conversations we didn't have before.

In all candor, a year ago if a customer was inclined to talk to us about EVA, they probably already had. What we're finding now is, the very public profile of this 3PAR deal and the other things we're doing, we're in a while bunch of conversations that HP storage hasn't been in in the past. So we're frequently seeing scenarios where you go in and you talk about the new technologies, and it turns out that the customer has a need for tape archiving. Are you going to build our go to market external messaging around tape? No. But these products open up a tremendous amount of doors for the rest of what we do.



Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

Now the other question that's been raised and that certainly we've been very focused on, is how do we bring these things together. What is the model and we call our model converged infrastructure. And as I've kind of alluded to as I've gone through the last few slide, we're focused on three things. And as you look at these new technologies as well as some of our well-established technologies, we want to accomplish three things.

First off, wherever we possibly can, we want to leverage the other capabilities of HP, in the server area, in the network area, in the software area. So wherever we possibly can, we want to focus of running our new technologies on industry standard platforms or as close to industry standard as we can. As I indicated, we've moved LeftHand, IBRIX and StoreOnce to run on technologies that are basically ProLiant and BladeSystem. To a greater and greater extent over time, we're finding ways to leverage those components and supply chain elements to do the same on 3PAR.

We're also focused on technologies that scale out. We do not want to be in a model that is monolithic or scale limited. This is on the initial slide and we talked about breaking the boundaries of storage. A key concept in everything that we're doing now is about scale out, in terms of breaking those boundaries. We want to provide capabilities for "big everything". So whatever of these new applications you're pursuing, we want to be able to provide technologies that allow you scale, almost limitlessly. Build your cloud, your service provider, whatever new capabilities you've got, without having to worry about those limits.

And we're trying to do it in ways that allow you to scale capacity and performance but not have to scale all the other costs with it. And that's where some of these technologies from 3PAR and these other new platforms allow us to do that. Again if you can run it with half the amount of manpower as you scale up, there's a tremendous payoff there. And the traditional storage products didn't do that. You saw management costs scale actually faster than capacity and performance costs.

Okay, and the third piece is converged management and that's probably the one that is most nascent. We have a lot of work that's been done there, but we have a significant amount of work left to do. Some of the examples of things we've accomplished just in recent past here are, first off, taking our storage arrays and integrating them into what's now called cloud system matrix. It was -- cloud system matrix was initially built on a technology called BladeSystem matrix, which was the management capability for our BladeSystem family.

And it's evolved to become the management capability for our cloud capability. We've integrated all of our storage platforms into that. Primary focus after we focus the 3PAR acquisition was integrating 3PAR into that. So now 3PAR is part of cloud system and is manageable by cloud system matrix. What does this mean? It means if you are an administrator and you got to set up a new application, you can go provision your server, your network and your storage with 3PAR using that one tool.

That's an example of how you start to collapse that management cost. So management is a major, major focus for us within our business unit and in making sure that we have consistent converged management across platforms - servers, networks, storage and other.

Now I wanted to bring this chart up as well. This is not a chart that we use with our sales folks on a regular basis, but it is one that we used when we announced the 3PAR acquisition. We used it with the analyst community and with the financial analysts when we went through that overview of how we were going to bring these things together. We are still executing this plan. We're still on plan with this. And we've made a tremendous amount of progress with it.

If you look at how we align these different products across the different businesses that we serve, across the top of the chart you see we've got SAN capabilities. We've got NAS capabilities. And then we've got backup and recovery capabilities. On the left you see going down the side, high end, cloud and service provider, mid-range and low end or SMB. Couple of things to observe. First off, XP P9500 XP is still part of the portfolio and will continue as far out as we see.

Its particular needs are going to be those -- or use cases are going to be in those high transaction, transaction processing classic datacenter applications. And especially ones that include mainframe. 3PAR, we have no plans to add mainframe. Doesn't make



Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

sense to do that. 3PAR doesn't need to focus there. We're focusing our investment dollars on other things with 3PAR. We already have that capability with the XP platform.

You also see 3PAR extending down into general-purpose mid-range storage. Again we're selling more of the lower end F class 3PAR than frankly they ever did, since the introduction of that product prior to the acquisition. So that is finding its way into more and more general-purpose storage opportunities. EVA continues, especially for really two populations. Number one, the established EVA customer. The folks that have it now have been loyal with it, find value in it and want to continue to make their investments in EVA. And again, there's about 100,000 of those out there.

Number two, EVA showing a tremendous amount of popularity throughout the world in customers that look like those initial EVA customers. We see today, customers in especially places like the BRIC countries, Brazil, various parts of Asia. Very fast growing economies where those companies are buying lots of storage infrastructure in many cases for the first time. They want the same things the original EVA customers wanted. They want EVA class ease of use. It's still the simplest thing you can buy in this class.

They want it to be a very strong general-purpose, use it for everything kind of storage array technology. And then they want HP support. Those three things are the reasons that EVA took off, and this new rev of EVA -- the P6000 EVA it's finding its way into a lot of net new opportunities, especially in those parts of the world.

So those are things I'll touch base on -- touch on there. In the NAS category, it's interesting. The X9000 IBRIX technology is mainly focused on the next wave of NAS growth. Especially these new big everything kinds of applications, where customers are looking to get out of the model of buying ten more filers every quarter. We have a lot of customers, especially in the financial industries that you folks are a part of, who tell us look, I loved my filers when I started buying them, the first ten saved me a lot of money. They're simple to implement. Now I have 500 of them. And I'm going to be buying another 200 this year. And those are just 200 more points of management.

And those numbers 500 and 200, I just gave out were directly from a large financial services organization. So those are real experiences that we see customers wrestling with. What they want to do is buy one pool of file storage that they can just scale out without having to add 200 more points of management next year. That's what the X9000 is focused on. That massive pool of unstructured data.

Now below that you see a thing called the X5000. This is designed to be a classic NAS -- or a classic filer if you want to think of it that way. We just introduced this new X5000 recently, but it's based on a product family that's been around for a while. This is built using Windows NAS technology, and it's the first active-active Windows NAS in the history of Windows storage server, which is Windows, the Microsoft NAS technology.

So that's kind of the one that we're going to position in the low end and the mid-range to go after the folks that want a classic filer that can do NAS, iSCSI in a very, very simple kind of way. So we've got two approaches to that market. And on the right side, StoreOnce is our strategic technology for deduplication. Today we ship these as units or boxes, built again, on a ProLiant class platform that'll allow you to provide a very simple backup target that deduplicates with a tremendous amount of capability. Over a period of time, we are going to take that software and put it in a variety of other places, and as I mentioned, two of those places we've announced externally are going to be putting that software into our Data Protector backup software.

So we can deduplicate right on the backup client. And number two, we're going to put it on top of IBRIX. Now think about that. If you've got the ability to build a massively scalable file store with IBRIX and deduplicate everything that comes into it, that is a huge backup target. And frankly it will be the largest that exists in the industry. That's an example of how we're using these building blocks that we've brought together in a converged way to provide some entirely new solutions.

So to kind of net it out here, a few months ago Leo Apotheker, our CEO came out the financial analyst community as well as to the industry analyst community and laid out his strategy for HP. The way I think about it, it was the unifying theory of HP. To



Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

me it was very compelling because it was the first time in a long time, that'd I'd seen anybody come out and articulate how do all these different part of this large company come together and focus on one big thing.

And his big thing was cloud. And he talked about how we are going to help customers transition from where they are today to where they want to get. And since that, we've been focused looking at how are we going to do that, from a storage business perspective, what is our role, how are we going to help execute that. And the bottom line is this, we're taking this two-prong strategy of the established platforms and the new platforms and targeting a roadmap for customers that says look, we're going to help you optimize what you're doing today in your established or traditional IT datacenter environment.

All the products we've got onto that first tier there, they're designed to help you do things more efficiently in those environments. Now when you're ready, you can move to cloud and IT as service models. And we've got the technology to help you do that too. And this is essentially the chart that Leo used when he rolled out the strategy. And our approach is basically to say, we're going to help our customers get there at their pace.

Many customers we're talking to today want to do this tomorrow morning. And those customers are buying 3PAR, they're buying X9000 IBRIX, they're buying the other new technologies that we have. Many of our other customers want to get there right now. They're trying to solve the problems they have today, and they're making continued investments in the new EVA, the refreshed XP and many of the other products that we have.

So our two-prong strategy is designed to say we're going to help with what you need to do right now today. And we're going to give you a roadmap and a direction of a set of choices you can make when you're ready to move you forward. Now I'm going to wrap up this presentation and move to the Q&A section with one more quick topic. If you look back over the last two years and the picture I described at the beginning of the presentation, this converged infrastructure concept was laid out by Dave Donatelli only two years ago.

At that time, 2009, we really didn't have all the tools across any of our businesses to execute it. We needed new technology and resources and servers and networks and frankly you could argue that we were farthest behind in storage. 2010 was about filling up those buckets. Getting new technologies and capabilities and talent that would help us execute this plan. 2011 and frankly, 2012 are about how do we take those different building blocks that we've invested in and made consistent and do some creative new things with them.

Now this year, we've announced a couple of examples of that, and I'm going to focus on one area in particular. We have -- now that we have these building blocks, both in our business and across the rest of the ESSN organization that reports to Dave Donatelli, we can start to create new system solutions with them. We announced the CloudSystem system back in January, and just last month at HP Discover, we announced two new areas. One is called HP Virtual System and the other is called HP App System.

Now what these things are is purpose built solutions or products if you will, that are designed to accomplish very specific goals for customers. And I'm going to focus quickly on Virtual System as a very good example of this. And this is one that my organization is responsible for driving for the rest of the HP ESSN organization. Virtual Systems is a complete package or complete product that includes everything you need to deploy a new or existing virtualization environment.

So if I'm a customer and I'm going to go set up the VMware or Microsoft or Citrix VDI virtualization, I can by a VirtualSystem. It comes in a small, a medium or a large. Each one of them includes servers, networking, storage and software fully configured. The small one is built on our LeftHand software running on a ProLiant. A ProLiant for running the virtualization, the virtual machines, as well as TippingPoint networking security for protection and Insight Control to manage the whole thing.

As well as VMware software or Microsoft software or you can get a Citrix VDI solution. As you go up, the largest one is going to be built on BladeSystem and 3PAR and all those other components I mentioned and is designed to give you the capability to do up to about 6,000 VMs in the largest of those configurations. So the bottom line, is once we got these building blocks in



Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

place, the way we start to get leverage is by assembling different kinds of solutions that accomplish very specific tasks for customers.

Interesting thing about it is, it changes our product cycles. We can deliver these kinds of solutions much more quickly than we ever would have been able to before. Because frankly, it's an effort of assembly, of building blocks into new offerings, rather than having to completely redesign new products in much longer cycles. So to wrap up here, we're trying to integrate across our business from a product standpoint. We're also doing the same from a services standpoint. You might have noted that recently, the technical solutions organization, the TS organization now reports to Dave Donatelli who -- we've already been working with these organizations much more closely prior to that change.

But certainly that'll give us better alignment. Through that work we've been able to introduce and entirely new storage consulting capability as well as new financial services capability around delivering storage utilities, working very closely with ES, or enterprise services, to deliver hosting offerings with 3PAR. And we've got an entirely new certification model out there for services, partners and channel partners.

So to bring this to a close and enter the Q&A portion of the presentation, and we believe we've got the right set of capabilities that are focused on the future. They're built of new technology, new thinking. We expect that this is going to give us a pretty significant technology advantage. And now our job is to go execute with that and begin to change our market share position as HP has been successful in doing in the other parts of the business. So with that, I will hand this back over to Brian.

Brian Alexander - *Raymond James - Analyst*

Okay, I'll kick it off. On the converged infrastructure subject, how does HP's view of converged infrastructure change the competitive dynamics in the storage market, specifically what competitive advantage do you think HP gets in storage by owning the IP for the entire hardware stack. Is it basically the management software that customers will see as a huge ease of use benefit across the stack. And are you suggesting customer decision making is going to move more toward an integrated solution versus currently what seems to be best of breed.

Tom Joyce - *Hewlett-Packard - VP - Marketing, Strategy and Operations*

Well, I think -- here's the way I look at it, and I believe this very strongly. Is that you have to play both games. In order to win in the storage space, you have to play the best of breed game. And you also have to be able to provide a compelling overall solution for customers. So that's what we're trying to do. We believe that with 3PAR we've got the right technology to compete on a best of breed conversation with anybody else in the block storage business. Especially when you start looking at cloud and you start looking at IT as a service.

And we're seeing the initial results of that as we engage with customers in the field. So best of breed is not to be ignored, it's frankly where we're making our investments to make our products best of breed and get new products that can compete there. Now the other part of it is how do we bring it together, and converged infrastructure and converged storage in particular as part of converged infrastructure, are the way we express that.

Let me give you some examples, just very quickly, a couple of examples on how this pays off. This is not just running servers -- running storage software on top of a generic server. There's a lot of technology that's been put into ProLiant and BladeSystem that we can leverage in a common way. Some of these things have been talked about publicly by our server folks for the last year. Things like the Data Server Smart Grid technology. Things like our sensors technology.

Things like Datacenter Lights-Out management. Now when we deploy LeftHand or IBRIX or StoreOnce on those technologies, we take advantage of those things. So if a customer is deploying BladeSystem or ProLiant across their business and they're leveraging integrated Lights-Out technology to manage that whole thing, now you can manage the storage that way too.



Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

And that's non-trivial. The other things that we get is we get the ability to work very closely with our industry standard server division, our security division, our software divisions to drive our requirements into their hands. So that when we get technology back from them, it accomplishes our specific objectives. So that's a pretty big deal.

Lastly, I'll just say that if you look at the storage controller business or you look at storage arrays, probably about 70 percent of the market right now actually already uses Intel technology. Intel server technology. So that transition has already happened. But if you compare the technology, the products one to another, many of them are two generations behind on that technology. Because to develop storage on top of components you source from another company there's a lag time in development effort to get that done.

What we're able to do is leverage current technology. So if you look at things like power efficiency, or green, many things that customers care about, not just from an altruistic standpoint, but these are parts of the conversation when you're trying to justify and investment in one product versus another, and we're able to use more current technology than many of those other folks that are out there. So those things are just a couple of examples of how we get leverage. Our goal is not to just compete on the convergence. It's to compete both on the convergence and also on the basis of best of breed.

Brian Alexander - *Raymond James - Analyst*

Okay, just shifting gears to R&D, HP is often criticized by investors for not spending enough on innovation. You look at EMC and Netapp R&D as a percent of sales tends to be in eight to twelve percent range. Two weeks ago Netapp had its analyst meeting, they expressed some doubt about companies like HP and Dell and their commitments to innovate despite some of the significant acquisitions you all have made. So I know you guys have been spending money internally on things like StoreOnce, you just refreshed EVA. But from an R&D perspective, can you comment on what the profile looks like for your storage business relative to some of these independent storage vendors. And do you think HP has the portfolio to compete, or are there more inorganic investments that you need to make to be competitive.

Tom Joyce - *Hewlett-Packard - VP - Marketing, Strategy and Operations*

Well, I'll say a couple of things. First off, we don't and really I cannot comment on the specific levels of R&D in the HP Storage business or the trending. But I can say a couple of things. First off, by pursuing this converged approach, we're able to take advantage of a lot of investment that's been made elsewhere in the business. And it really does put a tremendous amount of precision into where we put our focus. And a lot of what frankly I've been focused on doing over the last year, is to say, Okay, where are we going to put our dollars.

Where are we going to make our investments. What are we going to shut down and not do, and we've turned off a lot of things that were distractions or third party technologies, so we could focus on this two-prong strategy that I described to you. But that focus also gives us the ability to say, we're going to allow the server folks to invest in their business, and we're going to leverage those resources and work with them on how to direct them.

But then we're going to take our dollars and invest them in the places that we can really innovate. So in reality, we're able to take advantage through that approach of other people's money. And by working with HP Labs, I can take advantage of technologies that they've been -- what's the word I'm looking for -- they've been investing in for many, many years and incubating over a long period of time.

Things like StoreOnce, that was a technology that they'd put significant investment into. And there's other examples of things we're doing with HP Labs to leverage that. So I think that our approach is actually representative not just of the direct investment we're making in our business unit but in all the ways we're leveraging investment throughout HP. Lastly, if you compare our approach to Netapp's approach, we've been much more effective, I believe, of taking advantage of another key tool for any player in this industry, and that is acquisitions.

Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

When I was EMC, we did the same thing. We're able to play both of those games. I would argue that I don't think Netapp has been anywhere nearly as successful. And we'll see how they do with some of the more recent things that they're trying to accomplish. They don't have a long track record and taking advantage of that part of the tool set. I think that over a period of time, we'll look to do other things. I can't say what those things may or may not be right.

But we're active in the market and we think about things as the market changes and as our needs advance, we can work with HP Labs, we can develop it ourselves, we can look to other ways to get access to those technologies. And I think so far, if you look at 3PAR, we've got a pretty good transaction record if you listen to the folks in the market and what we've accomplished so far with that.

Brian Alexander - *Raymond James - Analyst*

Let me ask on more and then we'll turn it over to see if any investors on the line want to ask any questions. Picking up on 3PAR and pricing strategy, how do you think about using price as a lever to drive penetration. Are you striving to achieve gross margins that are comparable to competitors, in the 55 to 65 percent range. Or are you willing to accept something lower to drive incremental market shares similar to what you guys are doing on the networking side versus Cisco.

Tom Joyce - *Hewlett-Packard - VP - Marketing, Strategy and Operations*

That's a very good question. Again, I can't really comment on exactly what our pricing strategy is. But I'll say a couple of things. We have a large portfolio and in different parts of the portfolio we do take different approaches. And certainly on some of the more established or commodity oriented technologies, we might take one approach. Whereas with something like 3PAR, we might do something entirely different. We believe that with 3PAR we have a significant technology lead.

And we also think we have an extraordinarily compelling value proposition. Where we can go in and establish that value proposition, get the benefits of that intellectual property. We do expect to get paid for it and we're not dropping our prices as a result of that. So far, we're having very good success in going in and talking to customers about the fact that, look, with the efficiency capabilities, with the autonomic management capabilities, with the thin provisioning, the leadership that we have, you can actually buy a lot less storage.

And you can run your business with less people. And we do expect to get a margin for that. So our approach right now is that we think we're going to be able to do quite well with 3PAR from a pricing and margin standpoint.

Brian Alexander - *Raymond James - Analyst*

Okay, Crystal Lynn, any questions in the queue?

QUESTIONS AND ANSWERS

Operator

We have no questions at this time.

(Operator Instructions)

Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

Brian Alexander - *Raymond James - Analyst*

Charly, anything on the webcast side?

Charly Kevers - *Hewlett-Packard - IR*

We've got one question asking about Store360. Tom if you don't mind giving a quick explanation as to what Store360 is and how it impacts our product offering.

Tom Joyce - *Hewlett-Packard - VP - Marketing, Strategy and Operations*

Yes, certainly, now I didn't use that term in the presentation but I talked about some aspects of it. Store360 is a term that we use and we talked about externally for the first time back at HP Discover. And really what it is, is it's how we've brought together the architecture around IBRIX, LeftHand and StoreOnce. These scale out software technologies. Now IBRIX came from acquisition. LeftHand was another acquisition. And StoreOnce was internally developed with HP Labs. So they came from different places.

But they have a number of points in common. Because they were of kind of the same generation of technology, they were all developed in this century with similar concepts in mind. They were built on a common Linux or a Linux Kernel. Many similar open source technologies were used and very similar concepts. It was by no mistake that we selected those particular technologies over time.

Now what we've done since then, since acquiring them and bringing them in, especially over the last 18 months, is to bring a lot of commonality to them. So as I indicated they now all report up into one development vice president. They're part of the same development unit. And they're developed in the same way. So now if you look at them, they're on an identical Red Hat based kernel. They have commonality across the metadata and management layers throughout.

And they're common in a variety of ways. And that's how we get them to be effectively building blocks. So today, if I've got a BladeSystem running LeftHand, that's my SAN. Tomorrow I might be able to bring that IBRIX software and run it on that same BladeSystem and everything is common. So Store360 was the software architecture we built to take those separately acquired technologies and turn them into one set of building blocks or personalities.

The advantage that gives you over a period of time, rather than having to go buy a unified storage device from EMC, where a VNX, as they call it, includes CLARiiON, which has a Windows kernel and Celera, which has a proprietary real time operating system. They're entirely different and they put a thin skin of management over the top of it to make them look the same. Our stuff is actually the same. And these building blocks allow us to do much more flexible kinds of things. So that's what Store360 is.

Brian Alexander - *Raymond James - Analyst*

Let me go back to 3PAR, and I don't know if you'll be able to answer this, Tom, but there's been rumblings about a refresh next quarter. This hasn't happened in a while. Could you comment on that and whether we could see architectural changes that could make it an even better solution. You alluded earlier to leveraging more industry standard technology for 3PAR, so for example is it possible to move the custom ASIC into the server thereby moving 3PAR storage functionality closer to the application, which would ultimately improve performance and lower costs. Just maybe any update there.

Tom Joyce - *Hewlett-Packard - VP - Marketing, Strategy and Operations*

Yes, so we have an aggressive roadmap for 3PAR as was indicated when the product came on board. We are making a significant investment in it. Clearly you don't make an acquisition as publicly and for the kind of price that we paid and not follow up with

Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

significant investments. So we're doing things as aggressively as we can think of to do them. We've already integrated the product with our management software and integrated it with IBRIX and done a lot of those kinds of things.

I can't comment of what our roadmap is. I'd say a lot of things are certainly possible. And we are excited about what's coming next. I would say that one other point I would make because there have been some guess work done in the press about what we might do. The existing platforms that we have, the T series and the F series, they're not going away. They're staying in the portfolio. We have roadmap opportunities to do some new things, but I can't comment on any of those things at this time.

Brian Alexander - *Raymond James - Analyst*

Okay, maybe switch over to IBRIX, which you're using for scale out NAS and how it competes with established solutions like Isilon. EMC had a call a week ago, and they mentioned IBRIX as a main competitor. But maybe more secondary to Netapp. Just talk about the competitiveness of IBRIX, what makes it different, and what usually drives success when you have the bake-offs.

Tom Joyce - *Hewlett-Packard - VP - Marketing, Strategy and Operations*

Yes, it's a very good question, I know we're running short on time, so I'll be as brief as I can with this. IBRIX was a very, very small start up company when we acquired them. And it was only November of '09 when that came on board. So there's been a far amount of work to get that to the point where it's a product that can go throughout the world and accomplish the things that we intend to accomplish with it.

So I think that we're really at that point now. We did an announcement back again, at HP Discover of addition of new features that are really required to play in this space in a very strong way. We didn't have snapshots; we didn't have worm archiving capability. We had a lot of other things that nobody else has. But some of those basic things we had to get. And so we've done that. So we've added a lot to the product in terms of packaging, ease of management, stability, features so that it can compete much more effectively.

Now that having been said, IBRIX isn't really targeted at the classic NAS filer market. It's really kind of a -- it's targeted as this new set of opportunities that are out there. So the places that IBRIX tends to win are the places that we would encounter Isilon, focused on places where scale out is important. And so in the medical industry we've done extraordinarily well. We're talking about lots and lots of files and many of large. And they need to just grow capacity almost infinitely.

We've done very well in media and entertainment also with large files and things of that nature. We're starting to see a big transition, though in the IBRIX mix from some of those verticals to general-purpose use cases, especially for things like backup. The fact that you've got a 16 petabyte or larger repository of files makes that thing a huge target for backup and archive data. So we're seeing customers of all kinds saying I just need a place to put everything.

Now many of those customers are Netapp customers. So one of the places that we will be focused on is going into those customers and saying look, I got to buy 200 more filers this year. And saying don't. Why don't you look to migrate that data off those boxes as it reaches a certain point and archiving it to this massive IBRIX pool with a different level of efficiency and no real boundaries or limits in terms of the scalability of that environment. So that's kind of the focus that we have for IBRIX over the next year or so. And you'll hear more talk from us in the market about archiving and using it as a back up target.

Brian Alexander - *Raymond James - Analyst*

Okay. Crystal Lynn, any other questions online?

Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

Operator

We have no questions.

Brian Alexander - *Raymond James - Analyst*

Charly, do we have time for one more?

Charly Kevers - *Hewlett-Packard - IR*

Maybe a quick one.

Brian Alexander - *Raymond James - Analyst*

Yes, I guess just IT a service you brought it up earlier, HP's focus on cloud. Leo's talked a lot about that. Just talk a little bit about your vision for HP in terms of storage as a service and when that might be introduced to customers and who you're targeting there.

Tom Joyce - *Hewlett-Packard - VP - Marketing, Strategy and Operations*

Okay, well, I can speak primarily about the HP Storage part of that. I think the 3PAR capabilities in particular around multi tenancy are a real big advantage. The fact that you can consolidate many customers onto a single array with bulletproof security, one from another, that's a unique feature. That's one of the big reasons that 3PAR's been successful in cloud and IT as a service so far in the market. Our approach is to take that and apply it in all the ways that HP is pursuing cloud. There are a lot of ways to do cloud.

And there a lot ways that approaches that folks have in mind. Frankly we think 3PAR is an optimal fit for nearly all of them. So Leo had talked about services that HP's going to be introducing, clearly we want to be part of that. As I indicated earlier, we are already part of the things that ES is doing. It's been a big push to make sure that we got 3PAR qualified in ES for their use cases. Many of them are cloud, many of them are more traditional. So we're part of that as well.

So our approach is to basically, as I indicated, look at Leo's vision and look at the things that he's charging other parts of the Company to do and make sure that we're building the right storage assets for every part of that program.

Brian Alexander - *Raymond James - Analyst*

Okay, Tom, do you have any wrap up comments?

Tom Joyce - *Hewlett-Packard - VP - Marketing, Strategy and Operations*

No, I'd just like to thank everybody's time and interest in what we're doing and appreciate the feedback.

Brian Alexander - *Raymond James - Analyst*

Same here. Thanks everybody.

Jul. 13. 2011 / 4:00PM, HPQ - Hewlett Packard Co

Operator

Ladies and gentlemen, this concludes our call for today. Thank you.

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.

©2011, Thomson Reuters. All Rights Reserved.

