

# FINAL TRANSCRIPT

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## **HPQ - Hewlett-Packard at Bear Stearns 18th Annual Technology, Communications & Internet Conference**

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## CORPORATE PARTICIPANTS

### **Andy Mattes**

*Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group*

## PRESENTATION

### **Unidentified Speaker**

Okay, thank you, we're going to start in a moment with Hewlett-Packard. I just want to remind you, lunch will be in ballrooms B and C. We'll get lunch out there around noon, bring it in here for the buy side panel today and for the dual keynotes tomorrow. We'd like to invite you to join us tomorrow afternoon for something we've introduced. We'll do the analyst wrap-up sessions. We'll have a chance to talk about the inferences and implications of what's going on here and elsewhere.

The breakout room for HP will be downstairs in Imperial immediately after. A disclosure statement; Hewlett-Packard is or during the past 12 months has been a non-investment banking client for securities-related services of Bear Stearns & Company, Inc., and within the last 12 months Bear Stearns or one of its affiliates has received non-investment banking compensation from the company. Bear Stearns or one of its affiliates holds a significant financial interest in the total outstanding debt instruments of Hewlett-Packard.

With that, I'd like to welcome Andy Mattes, who is the Senior VP and Chief Sales Officer of the Technology Solutions Group at Hewlett-Packard.

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### **Andy Mattes - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group**

Thanks, [Andy]. Good morning, ladies and gentlemen. Let me quickly take you through a few slides, and I hope we can use the majority of the time for some Q&A. You know the drill. This just says that, if anything, I'm an expert of the past, and not of the future.

Talking about the Technology Solutions Group, we had a pretty good Q2. We did roughly \$9.3 billion in volume. We did it at a nearly 10% operating margin, and if you take a look at each one of these business segments, the nice thing is that we grew the bottom line at about four times the speed of the top line, and that's been pretty consistent for all the three segments that have comprised the TSG Group, our enterprise servers, our software and our services.

When you talk about HP, HP's mission is to be the best company in the IT space. So if you break that down into my area of jurisdiction, which is the sales organization, my MBO, it's very simple, is to build the best sales force in the IT industry. And if you talk about building the best sales force, there's really three elements that you want to look at when your ultimate objective is to drive profitable revenue.

First, is coverage. Second is efficiency, cost, and third, of course, the human capital you're doing this with. The reason why we're mentioning coverage as number one goes back to a fundamental sales belief that you actually do sell more when you show up at a customer. Now, that might sound trivial. The fact of the matter is, our history, we have not been so stringent about who do we call on, why do we call on these people, what we're trying to accomplish and how do we do this in a more cost efficient manner?

So we've done a lot of work at analyzing where we are and where we want to be. You take a look at our overall market, on average, the market we're addressing is roughly \$450 billion, which is a pretty sizable market to be in. The good news is IT empowers just about 80% to 90% of all the business processes today. And if you're a CIO, your biggest worry is that you're sending a majority of your money and keeping your shop running and you're not spending it on innovation and the future.

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So any CIO, it doesn't matter which industry, is trying to readjust the balance between existing stuff and new stuff, and of course that drives a lot of momentum for all of us in the IT industry. From a sales optimization point of view, it's all about how do we address the customers through all of the channels available to Hewlett-Packard, so our direct sales organization. It's our channel organization, which we're traditionally very strong in, and it's our partner organizations and our systems integrators and ISVs and all these people that we work with.

In order to get our arms around building the best sales force in the IT industry, we followed a pretty simple mantra, which said we've got to move sales from an art more to a science, and we've actually taken a very big look at what's happening in the market. I just gave you one quick depiction here - is per customer we analyzed what's our growth, how much business are we doing today, and what's our share of wallet with these accounts.

And you think this through through three HP regions, seven business groups that we have within the TSG portfolio, four to five different sales motions, whether you're in a hunting space, all the way down into an installed base motion, and you can imagine you get a [cube] that probably gets you around 2,100 permutations of that question. The important thing is to line up or sales force accordingly to the opportunity, and this is not something that we've been traditionally very good at.

The fact of the matter is, when I joined Hewlett-Packard, took a look at our share wallet, you would expect that did 80% of our business with 20% of our clients. That was not the case for Hewlett-Packard. We had a different mix. Our share of wallet at some of the large, especially the Global 2000 IT spenders is not as high as it could be.

So we homed in very much on the question of, how do we do more business with the people that spend a lot of money in this industry? How do we make sure we bring the whole value of TSG and Hewlett-Packard to these individuals, and how do you make sure we drive a higher share wallet?

I told you earlier, one other areas that we found was coverage. We either did not show up, which is not good, or we did not have enough resource on some of those largest accounts. So over the last 18 months, we're made a major investment into the sales force and we have more than doubled the accounts, which we call high-density covered accounts, i.e. accounts where I've got one account manager covering one strategic client.

We've reached out to our channel partners, included them in our kind of investment program, and made sure that the additional air coverage that we're giving for HP also provides additional benefits for them. And finally, we drove a very rigorous process around numbers and stats and sales, especially around funnel and opportunity. Traditionally, we had a multitude of systems around the globe. We've standardized. We're not only using one CRM system, we're actually using one software version thereof, thus having a much better insight into what's happening in our pipeline world ramp.

We're doing this, while at the same time we're reducing our cost. It might sound like an oxymoron, to reduce costs and grow at the same point in time. The fact of the matter is, any organization of that size, also any sales organization, has inbuilt inefficiencies. So we're taking the inefficiencies out, and taking the money and reinvesting this kind of money into customer-facing, revenue-generating activities.

To give you just one example of how to streamline the organization, we have all three Hewlett-Packards, around about 18,000 salespeople. We had roughly 1,500 compensation plans. This is not only a nightmare to administer, it's also close to impossible to align 1,500 objectives with each other, and if you do the math that meant for every 12 people we had one comp plan, which is not something that you really think is very efficient.

So one of the exercises we did was we did is we streamlined all of that, brought it down, and we now have a few hundred comp plans for the whole corporation, which of course are run much more efficiently and much more streamlined. And finally, we spent a lot of time and money and energy on recruiting talent into the organization.

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Within the Technology Solutions Group alone, we hired some 700 people that provide us with the skills and the coverage for some of these large IT spenders that we want to have a higher share of wallet with. We're taking them onboard, we're training them as we speak and we're translating that into future business opportunities.

Now, all of this, of course, is just the precursor of hopefully good things to happen. One of the leading indicators is the customer feedback that we are receiving from our actions as of today. And this is the last slide, and I'll leave it at that. We're measuring pretty painstakingly the customer loyalty, i.e., do the customers enjoy doing business with Hewlett-Packard, and would they buy again from Hewlett-Packard? And what you can see from the curve, it's clearly been an up trend over the last two years from where it was, and we sure hope that this trend will continue with the actions that we're taking.

With that, I think we can start with the Q&A, Andy.

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## QUESTIONS AND ANSWERS

### Unidentified Speaker

Okay, we'll take some questions from the audience. I'll just start out with just one observation. You sort of alluded to it, Andy. How do you avoid making things overly complex? I mean, you want the salesperson to sort of focus. I mean, all these charts you showed up there were very impressive, but it sounds like you spend more time doing the charts than really on selling.

I guess sort of two parts to the question -- how do you create a sales culture at a firm that's really an engineering-oriented kind of company, and second, how do make the salesman's job more productive?

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### Andy Mattes - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

Well, let's start with the culture. Hewlett-Packard traditionally has a project or regional view of the world. One of the biggest things that we introduced was an account-centric view in addition to all the other views we had. Making sure we identify our key targets, making sure we align around customers, making sure we have matrices that we understand which customer is a good customer, where do we want to invest, where do we want to go forward, was one of the biggest operational areas we did to move that forward.

The other thing which truly helps is -- if your CEO is a salesman, and our CEO is the mental head of sales of our organization, so that helps drive the culture. And the third thing is just making the organization available for customers and customers [with] a lot of red tape. Now, like any organization, we cannot be accused of being the easiest organization to deal with, but we're putting a lot of emphasis behind programs to make sure that it's easier for customers to do business with Hewlett-Packard.

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### Unidentified Speaker

Question [down] here. You talked a moment ago about changing the sales incentives and also reducing the number of comp plans. What are you doing to -- I mean, can you give us some examples of what you're doing to try and more align things, and what things are you fixing and what things are you introducing that change things?

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### Andy Mattes - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

The first things we fixed was with 1,500 comp plans, you had a gazillion objectives and they did not necessarily jibe. So the first thing is, lining up the objectives. Second thing, driving more accountability into the sales force. Third area, we increased leverage,

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thus provided opportunity for people who perform and overperform to earn some good money, and by the same token, help performance manage the sales organization.

And the fourth one, which is really important for salespeople, we made it much easier to understand what you're being compensated on, so you could compute your success into your pocketbook dollars at a much faster rate, and believe it or not, that does motivate salespeople and drives spirit.

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**Unidentified Speaker**

Just, again, something along those lines. In terms of bringing people in, where are you finding these people? How long does it take to get them productive? And I guess address those issues.

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**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

Well, the good news is that we're seeing a lot of people who want to join Hewlett-Packard. At any given point in time, we have more than 1,000 resumes in the hopper of people that want to join the organization. The quality of the people that want to join is substantially higher than what we've seen in the past, so we don't have a problem of attracting good talent.

The challenge is once you get these people onboard, whether they are from the IT industry or whether they're from the vertical industry, i.e., the customer's industry, how much time we need to make them productive. And we go through a pretty lengthy exercise of making sure we bring them in, we put them into boot camps, we put them through our sales academies, and get them onboard in a pretty structured fashion to help them understand the organization and to help them be productive as soon as possible.

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**Unidentified Speaker**

Question here.

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**Unidentified Audience Member**

Quick question, when do you know you have too many salespeople, and what's the measure of it? Is it customer loyalty or any other metric you look at?

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**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

Well, at the end what we want to accomplish is a balance between share wallet with the largest IT spenders -- i.e., we want to have a substantial chunk of the money that they do spend. And the second thing is, we want to measure how satisfied our customers are in that process. While we're doing this, we're making sure we're not overspending on our field selling costs. So we're really driving home the points that we want to grow and we want to reduce costs at the same time.

And all these analytics that you saw, and I can take you through a whole lot of stuff, emphasize the point, let's invest where there's an opportunity. And let's make sure we don't over-invest where we kind of like maxed out the opportunity, and/or where we would have overlays between our own organization, channel partners or what have you not. So we're doing both at the same time, and we're very prudent about the cost elements, but still driving the top line.

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**Unidentified Speaker**

We have two questions, one here, and then one toward the other side of the room.

**Unidentified Audience Member**

Thank you. Just going back to that last chart you showed. If you could just help me out again, why that approval rating went down so much around 2004? Was it post-merger or something more cultural than that?

**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

I honestly don't know. I joined the company 18 months ago, and I've been with it since the up trend.

**Unidentified Speaker**

Question over here.

**Unidentified Audience Member**

Is there a geographic regional strategy for growth or is it very much focused on just market -- ?

**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

Well, it's very much focused once customers and wherever the customers want to invest and the customers want to grow. But to give you a geo breakdown, of the 700 folks that we added to the sales force, about 40% of that were hired in emerging markets, BRIC markets, to make sure we take advantage of the growth opportunities in those type of environments.

**Unidentified Speaker**

The other question I have is just the issue of, again, you came onboard when Mark Hurd was already there, but, I mean, what's your sense, you came over from Siemens, of some of the changes that -- or some of the directives that he's trying to implement. You talked before about it helps to have a chief salesman. What are some of the other things that you can talk about that you see there?

**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

Well, Mark is, for any of you who have met him, he's probably one of the most direct, outspoken individuals that you can find. He's very accessible and he's very clear in what he's trying to accomplish and he's extremely customer focused. We can call Mark at any given point in time 24/7 if we need him for a customer issue. Not that we do this all the time, but we have the opportunity of doing that, and that's just a phenomenal [asset] when you're trying to change a sales environment, just a big help.

**Unidentified Speaker**

Question down here.

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**Unidentified Audience Member**

Can you talk about the competitive landscape from a year ago to today? Who was your toughest competitor a year ago versus today, and then with some of the changes in senior management with some of your competitors, has it been a reinvigoration of those companies in a competitive area?

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**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

I think you're looking at the usual cast of suspects when you're looking at the competitors. Last time I checked, they're still all around. We believe we're doing a little better in some of the spaces than we did before. Give you an example, just in Q2, we had a 58% growth in our [blades], which sets us apart from our main competitors. It helps us to put the lead position. We grew our integrity service by 60%, so we feel good about what we're doing.

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**Unidentified Speaker**

How has it changed in terms of the competitive landscape?

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**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

They're still the same guys out there, and we're fighting them every day.

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**Unidentified Speaker**

In terms of channel strategy, also in terms of how you work with the channel -- I mean, you run a lot of different businesses, or you're involved in a lot of different businesses that have very different channel needs. How have you worked with the channel to get better coverage and better share of their mind, and better share of their customer wallet?

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**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

Well, the one thing we found is the more we get the customers to think HP, the more we gain the mind share of any CIO, the more beneficial it is for all sales organizations that we have, direct and indirect. So the channel partners are actually extremely happy with what we call our account investment strategies, with the additional folks that we brought in, because it helps them to drive more business, too, and we have all the sales motions you can imagine.

We sell direct, we fulfill indirect, we join sales or we have the indirect channels or first [NHP] being the support, if needed, for that environment. It's been perceived extremely positive and we're doing very well together.

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**Unidentified Speaker**

Another question is just in terms of how you -- in terms of working with the Global 2000 accounts, can you talk about some of the progress you're making there? Is it too early to see? You mentioned that earlier in your presentation, your focus there.

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**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

Well, the good news is, we see the pipeline with the pipeline with these accounts increase dramatically from the type of business that we did with them before. We see some early wins, but it's probably too early to declare victory on that.

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What we do see is a lot of positive feedback, that once we've focused on the accounts, that is, the number of accounts where we reduced the sales rep's focus onto one or two customers, which we call high density, has been extremely positively received, because by default the sales rep has to spend more time with the organization, work their way through the organization, be more proactive, understand their clients better. And the client response is very positive.

So I'm just coming back from APJ, met with a lot of Chinese banks last week, where we quintupled our business based on the investments that we did for this client. I can give you examples, in Europe, same thing. Large wholesale organizations, we basically didn't sign up, we signed a multi-million-dollar frame agreement in the meantime. So a lot of positive feedback. It will take a few quarters until you see that investment pan out in the overall numbers.

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### Unidentified Speaker

When you're talking about increasing accountability at the sales level, that can mean multiple things. That can mean that you don't make your numbers, you're replacing people. It can mean -- what does that mean in terms of increasing accountability for HP?

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**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

Well, the first means that the account executive owns the overall portfolio for the customer and helps the customer to embrace new technologies. Secondly, it helps to empower the account executive so that it's truly one face to the customer and not just one gatekeeper. And third, of course, it also goes down to performance management. If you do perform, you will do very well in this company and you will enjoy your returns. If you don't perform, that's probably not a good place for you to hang around.

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### Unidentified Speaker

What's been going on in terms of turnover in terms of the older staff? Are they able to move to this new metrics? What are you finding in terms of the existing sales staff?

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**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

We've changed the leverage on our sales comps last year, and we migrated about -- I want to say about 90% of the new sales force onto the new plan and it was very well received. People have an opportunity to make good money, and they know what they stand for. And those who didn't like that environment, either went and took jobs where they're not in the direct front line, or probably moved somewhere else.

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### Unidentified Speaker

One other question. When we look at HP, the question is a lot of people focus on HP as a turnaround story. You're trying to make the migration to growth. And a question is, how do you handle that complex task of both focusing on cost on one level, and growth at the other level? How do you get both messages across?

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**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

It's a constant communication exercise within the organization. But again, the simple message is, take out the inefficiencies of the organization and focus that money on customer-facing activities and revenue-driving activities. You remember the numbers. We did some \$9 billion in revenue in Q1. We did about \$900 million in operating profits. So, it's roughly \$8 billion in cost in that quarter.

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Take any number, take 4%, 5% of inefficiency in a large organization, and it gives you an idea about the opportunities you have to optimize organization and leverage that you have going forward into customer-facing activities.

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**Unidentified Speaker**

That's true of other companies, Andy. How do you get that sense of urgency across, though?

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**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

We're talking to the people every single day, and we measure them on both objectives, how do you drive your costs and how do you increase your share wallet?

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**Unidentified Speaker**

Okay. With that, we're going to break. The company will be holding a breakout session downstairs in the Imperial. Andy, thank you very much. Dave Hill is also here from HP IR, will be downstairs as well. Thank you.

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**Andy Mattes** - Hewlett-Packard - SVP and Chief Sales Officer, Technology Solutions Group

Thank you, Andy.

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