

HEWLETT PACKARD CO

Form DFAN14A

February 19, 2002

**SCHEDULE 14A**  
**(RULE 14a-101)**  
**INFORMATION REQUIRED IN PROXY STATEMENT**  
**SCHEDULE 14A INFORMATION**  
**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive

Proxy

Statement

Confidential, for

Use of the

Commission Only

(as permitted by

Rule 14a-6(e)(2))

Definitive

Additional

Materials

Soliciting

Material Pursuant

to Rule 14a-12

**HEWLETT-PACKARD COMPANY**

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(Name of Registrant as Specified In Its Charter)

**WALTER B. HEWLETT, EDWIN E. VAN BRONKHORST AND THE WILLIAM R. HEWLETT REVOCABLE TRUST**

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

Fee not required.

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount

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(2) Form,  
Schedule or  
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Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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*February 19, 2002*

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- 1 Based on HP 10/31/01 10-K and Bernstein research dated 12/18/01. Excludes \$0.4B in restructuring and acquisition-related charges. Total EBIT includes \$0.4Bn in other losses and eliminations.
- 2 Based on revenue growth and margin assumptions detailed on pages 8 and 9.
- 3 Historical FY 1998 to FY 2000 average operating income margin was 8.8%. HP reported an overall operating income margin of 6.3% in the first quarter of fiscal 2002. HP's standalone First Call estimate of \$1.35, as of February 15, 2002, for fiscal 2003 implies an operating income margin of 6.9% based on a 22% effective tax rate and zero net interest expense and other income. Banc of America Securities projects an operating income margin of 7.4% in fiscal 2003 under management's current strategy and incorporates estimated impact of pre-closing negative revenue synergies.

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- 1 Estimated potential share price in fiscal 2003. Prior presentations of the value impact of the proposed merger excluded the impact of potential multiple compression. This analysis excludes the impact of the costs to achieve potential cost savings.
- 2 Based on assumptions detailed on pages 8 and 9.
- 3 Based on First Call consensus estimate as of February 15, 2002 based on company's existing strategy.
- 4 Based on consensus earnings estimates for HP and Compaq of \$1.35 and \$0.45, respectively, for HP's fiscal 2003, \$1.8 billion in pre-tax cost savings, 10% revenue loss, 25% contribution margin, and 26% effective tax rate.
- 5 Management assumption based on 425 filing of 12/19/01.
- 6 Based on current First Call consensus estimate of \$1.11 for fiscal 2002 and closing share price of \$20.36, as of February 15, 2002.
- 7 Based on HP First Call fiscal 2002 EPS estimate of \$1.05 and HP's closing share price of \$23.21 on August 31, 2001. The weighted average price-earnings multiple of an index of comparable companies increased from 21.6x to 26.4x from August 31, 2001 to February 15, 2002. The index of comparable companies is comprised of the same companies used by Goldman Sachs in performing its Selected Companies Analysis in connection with rendering its fairness opinion to HP on its proposed merger with Compaq, excluding EMC, Gateway, Sun Microsystems, and Network Appliance because their price-earnings ratios were not meaningful as of February 15, 2002.
- 8 Based on lowest end of price-earnings multiple range used in December 19, 2001, HP Position on Compaq Merger presentation, page 29.
- 9 Based on HP's current fiscal 2002 price-earnings multiple of 18.3x applied to HP's current First Call consensus earnings estimate of \$1.35 for fiscal 2003.

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- 1 On 9/5/01, Moody's downgraded HP from Aa3 to A2, and placed Compaq under review for possible upgrade from Baa2. S&P placed ratings watch on HP with negative implications and on Compaq with positive implications on 9/4/01.
- 2 Compaq missed its 2000 and 2001 earnings forecasts at the beginning of each year by 11.0% and 87.3% whereas HP missed by 1.1% and 63.5% for the same periods.
- 3 Based on average next twelve months price earnings multiple from StockVal data from 10/25/91 to 8/31/01.
- 4 Based on management projections contained in 425 filing dated 12/19/01.
- 5 Based on realistic case pro forma EPS (see page 8 and 9 for detailed assumptions) excluding pro forma amortization of intangibles.
- 6 Based on monthly Barra predicted beta from 12/92 to 9/01.
- 7 Based on First Call revenue estimates for each company's fiscal 2003 as of 2/15/02.

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- 1 Management projected long-term growth estimates for the combined company from HP 425 Filing 10/25/01.
- 2 Management combined company segment growth estimates before revenue losses calculated based on segment operating incomes, segment operating margins and segment revenue losses from HP 425 Filing 12/19/01.
- 3 Based on weighted average projected growth rates from IDC for the following segments: inkjet hardware (1.8%), monolaser hardware (4.3%), color laser hardware (14.7%), inkjet supplies (11.9%), laser supplies (15.5%), digital cameras (12.5%) and scanners (7.5%). Also includes growth of Multi- Function printers from Lyra research (2.7%). Growth rates weighted by 2001 market sizes of inkjet hardware (\$10.1B), monolaser hardware (\$9.9B), color laser hardware (\$7.0B), inkjet supplies (\$13.6B), laser supplies (\$14.3B), digital cameras (\$6.8B), scanners (\$4.5B), and MFPs (\$7.7B)
- 4 Imaging & Printing grown at a premium to management estimated growth rate due to strategic focus on that business.
- 5 Market growth rate based on average of IDC growth rates for Unix servers (8.4%), NT servers (16.9%), and storage (1.7%), weighted by 2001 segment revenues estimated by Bernstein research dated 12/01, for Unix servers (\$3.3B), PC Servers (\$1.7B) and storage (\$2.6B)
- 6 Based on 0.5x market growth in NT servers and 1.25x market growth in Unix servers from segment focus. Storage grown at IDC projected rate of 1.7% from 2001 to 2003.
- 7 Market growth rates based on average for IDC growth rates for outsourcing (12.3%), consulting (11.9%), systems integration (14.2%), and support (6.1%), weighted by segment revenue in outsourcing (\$0.5B), consulting (\$0.6B), systems integration (\$0.8B), and support (\$3.9B)
- 8 Based on average of (i) 1.75x IDC sub-segment growth rates for outsourcing (12.3%), consulting (11.9%), and systems integration (14.2%) (equivalent to addition of 3,600 consultants at \$250K per consultant per year) and (ii) Bernstein estimates for HP 2000 to 2001 growth rate in support (6.1%), weighted by segment revenue in outsourcing (\$0.5B), consulting (\$0.6B), systems integration (\$0.8B), and support (\$3.9B). Financing (\$1.9B) projected with flat growth to 2003.
- 9 Market growth based on IDC 2001 PC Tracker.
- 10 Based on HP growth at IDC 2001 PC Tracker segment growth rates for consumer and notebook segments, and assuming a 50% contraction of business desktops based on focus strategy.

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- 1 Estimated operating margin target pro forma for the proposed merger. Based on HP 425 Filing dated 10/25/01.
- 2 Based on HP 10-K filings, excluding non-recurring and extraordinary items.
- 3 Based on Bernstein research dated 12/18/01.
- 4 From HP earnings release dated 2/13/02.
- 5 Based on midpoint of HP 2001 margin and Banc of America Securities 2003 estimate of 13.4% from 2/4/01.
- 6 From HP earnings release dated 2/13/02. Management noted that UNIX was profitable. Therefore, losses likely stemming from NT servers, software and storage.
- 7 Based on Bernstein research 12/18/01 estimates of 12.5% Unix operating margin for 2001. Also based on operating NT servers and storage at breakeven and reducing estimated losses in software business by 50%
- 8 Estimated operating margin target pro forma for the proposed merger. Based on HP 425 Filing dated 12/19/01.
- 9 Includes financing business as reported by HP 2/13/02.
- 10 Based on continued strong performance of services business as reflected in Q1 FY2002 reported numbers. Finance projected at break-even. Management anticipates steady state profitability in Finance of 8% to 10%
- 11 Based on average of 12/18/01 Bernstein research 2000 and 2001 estimated Access segment operating margins, weighted by segment revenue breakdown, and accounting for 50% reduction in commercial PCs per footnote 10 in prior slide.



Sources: HP 10-K filed 1/29/02, Hoover's Online, HP Website





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- 1 Compound annual stock stock growth from date of CEO departure until 2/15/02
- 2 Interim committee appointed to appoint CEO. In the interim period, Fred Anderson, executive VP and CFO, acted as CEO. Steve Jobs ended up as CEO.
- 3 Date of Jill Barad departure; Eckert assumed CEO position on 5/17/00
- 4 Departure of co-CEO David Mahoney
- 5 Resignation of Carl Yankowski. Eric Benhamou chosen as interim CEO





