



# High-end Imaging & Printing Growth Initiatives

**Imaging & Printing Group  
Hewlett Packard**

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# Use of non-GAAP terms

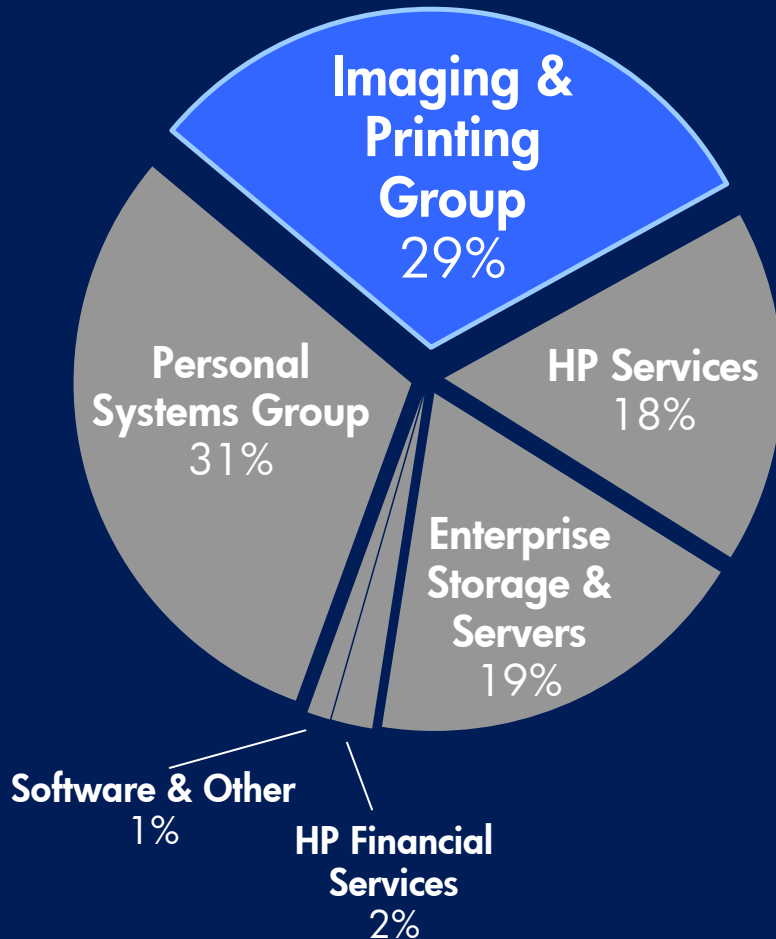
To supplement HP's consolidated condensed financial statements presented on a GAAP basis, HP uses non-GAAP additional measures of operating results, net earnings and earnings per share adjusted to exclude certain costs, expenses, gains or losses it believes appropriate to enhance an overall understanding of HP's past financial performance and also its prospects for the future. These adjustments to HP's GAAP results are made with the intent of providing both management and investors a more complete understanding of the underlying operational results and trends and HP's marketplace performance. For example, the non-GAAP results are an indication of HP's baseline performance before gains, losses or other charges that are considered by management to be outside of HP's core business segment operational results. In addition, these non-GAAP results are among the primary indicators management uses as a basis for planning and forecasting future periods. The presentation of this additional information is not meant to be considered in isolation or as a substitute for net earnings or diluted earnings per share prepared in accordance with generally accepted accounting principles in the United States.

# HP FY05 highlights

- **Q4 FY05 revenue up 7% Y/Y; Non-GAAP EPS up 24%**
- **Balanced revenue growth across all regions and segments**
  - \$6.8 billion in revenue growth in FY05
- **Improved margins in key businesses**
  - Q4 ESS operating margins of 9.1%
  - Fourth year of profit improvement in PSG; 2.5% operating profit in FY05
  - Achieved profitability in Software; 8.7% operating profit in Q4 FY05
- **Cost management**
  - Grew Q4 revenue \$1.5 billion Y/Y with a \$140 million increase in Non-GAAP OPEX
- **Generated strong cash flow**
  - Cash flow from operations of \$1.9 billion in Q4; \$8.0 billion in FY05
  - Free cash flow of \$6.6 billion in FY05
- **Returned \$3.5 billion to shareholders in share repurchases; \$926 million in dividends in FY05**

# HP FY05 overview

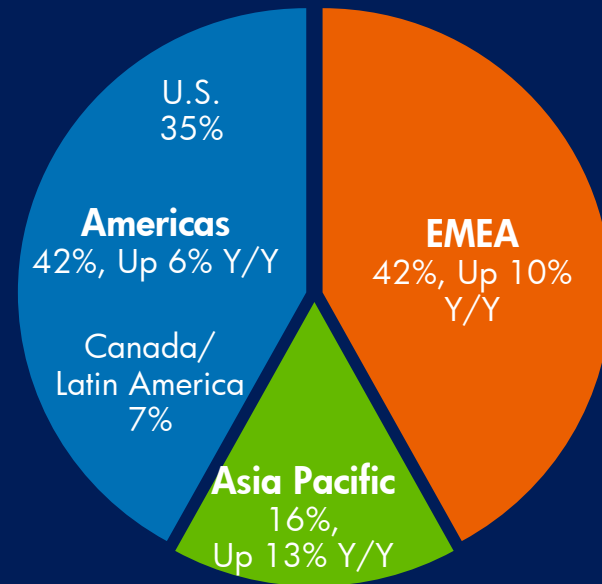
## Revenue by segment



## FY05 highlights<sup>(1)</sup>

| \$ in millions | Revenue  | Y/Y % | Operating profit <sup>(1)</sup> | OP % of rev |
|----------------|----------|-------|---------------------------------|-------------|
| IPG            | \$25,155 | 4%    | \$3,413                         | 13.6%       |
| Total HP       | \$86,696 | 8%    | \$5,582                         | 6.4%        |

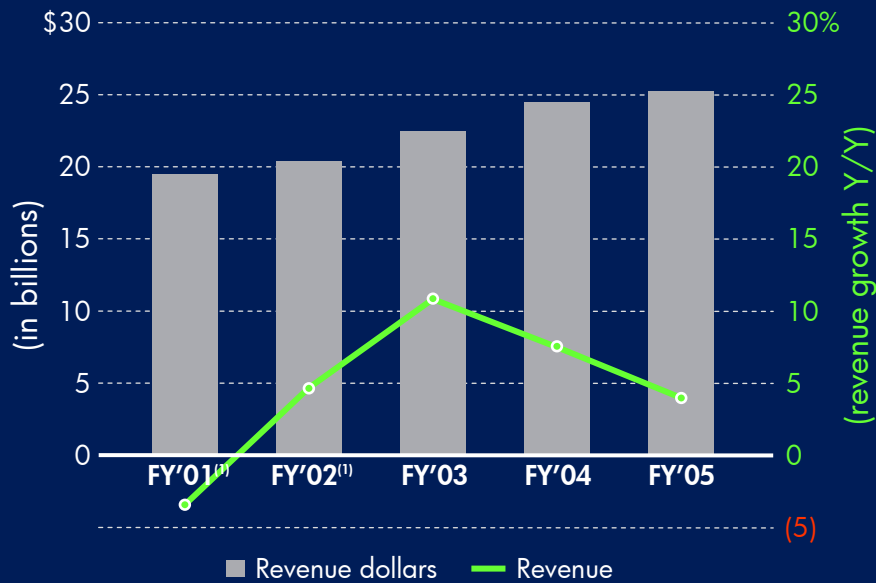
## Revenue by region



1. All non-GAAP numbers have been adjusted to exclude certain items. A reconciliation of specific adjustments to GAAP results for this quarter and prior periods is included in the GAAP to non-GAAP slides, included in supplemental slides of this presentation. A description of HP's use of non-GAAP information is provided on slide 3 under "Use of non-GAAP Financial Information."

# Imaging and Printing Group

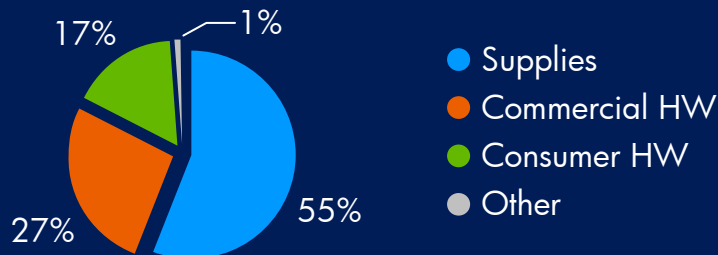
## Revenue



## Operating profit

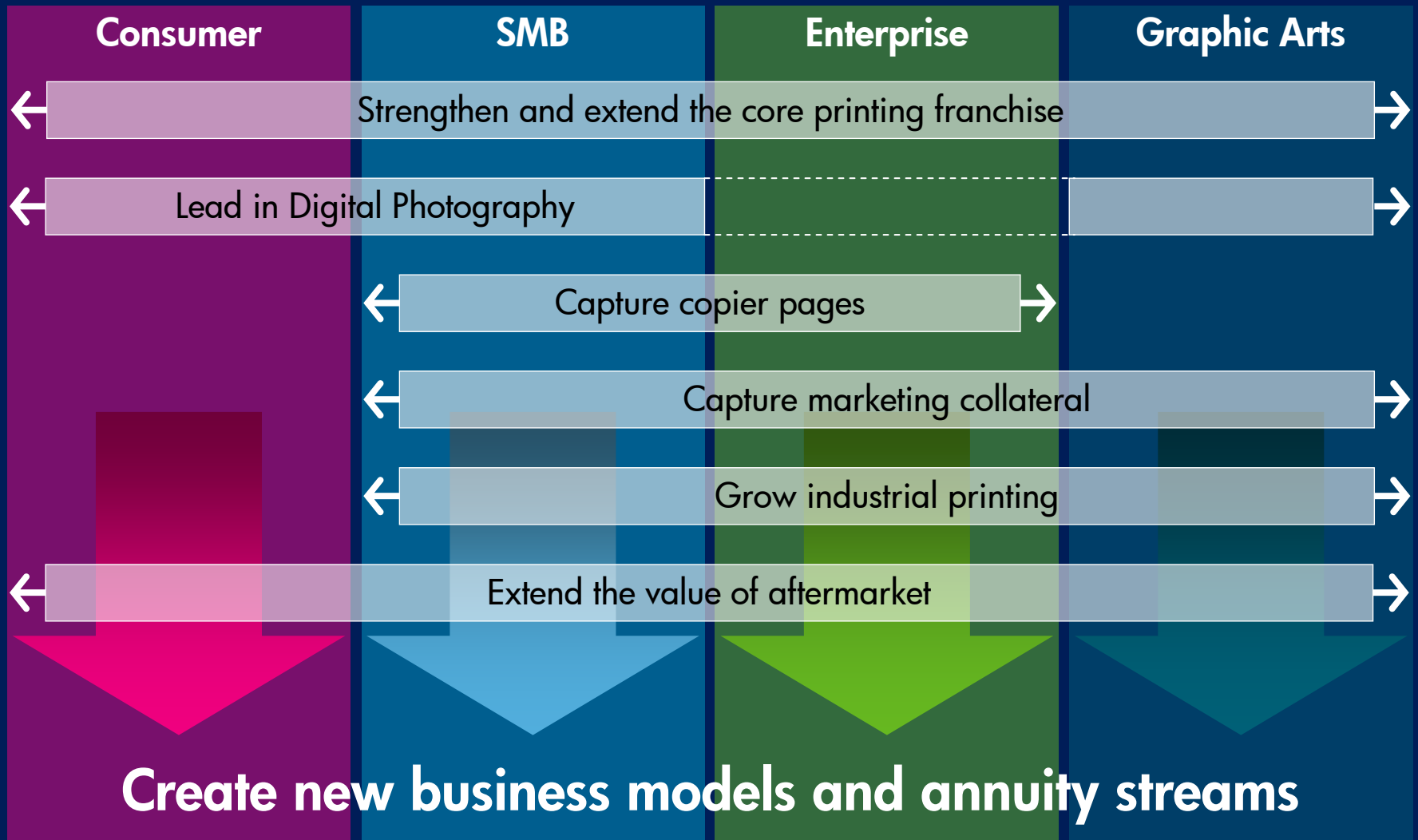


## FY'05 revenue by GBU



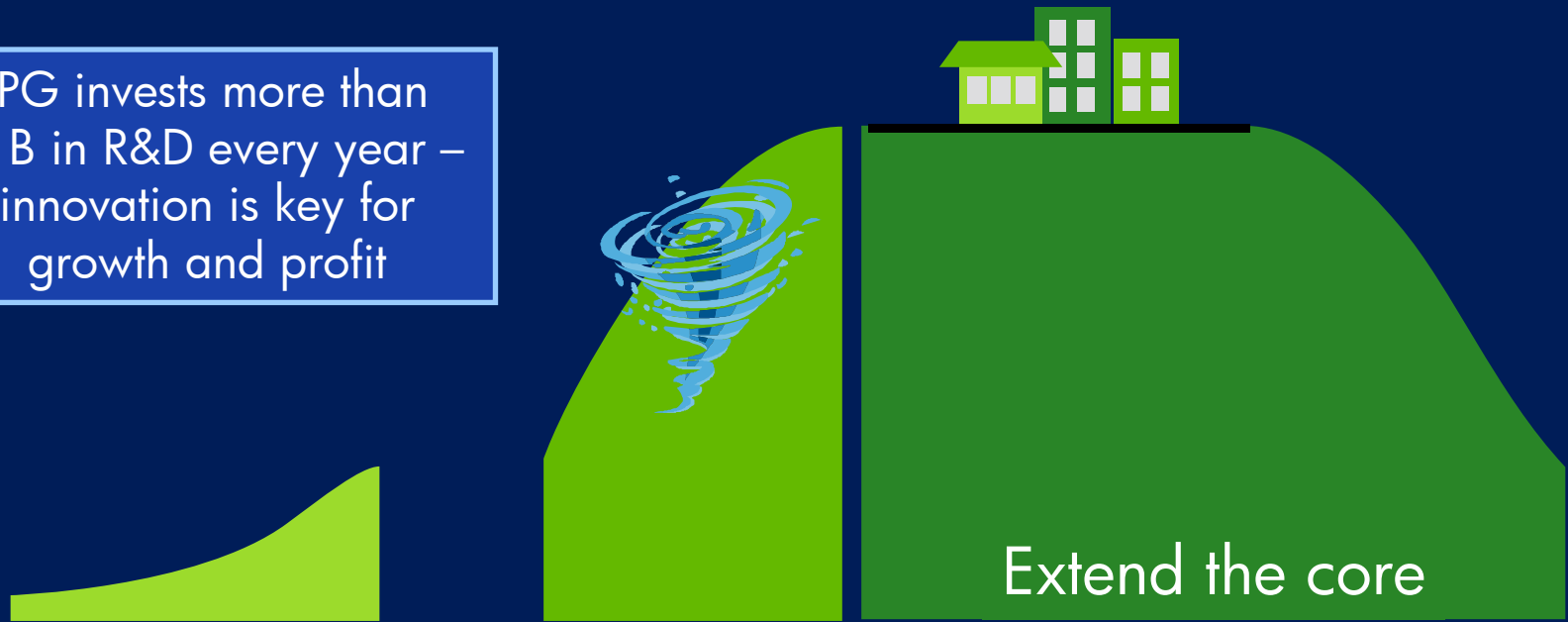
1. Stated on a combined company basis, see slide "Combined company" in supplemental slides

# IPG growth strategies



# Optimizing growth areas

IPG invests more than \$1B in R&D every year – innovation is key for growth and profit



← Growth areas & market adoption →

## New

- Imaging systems

## Emerging

- Digital photography
- Color in the office
- **High value pages**
  - MFPs
  - Industrial printing
  - Commercial printing

## Core

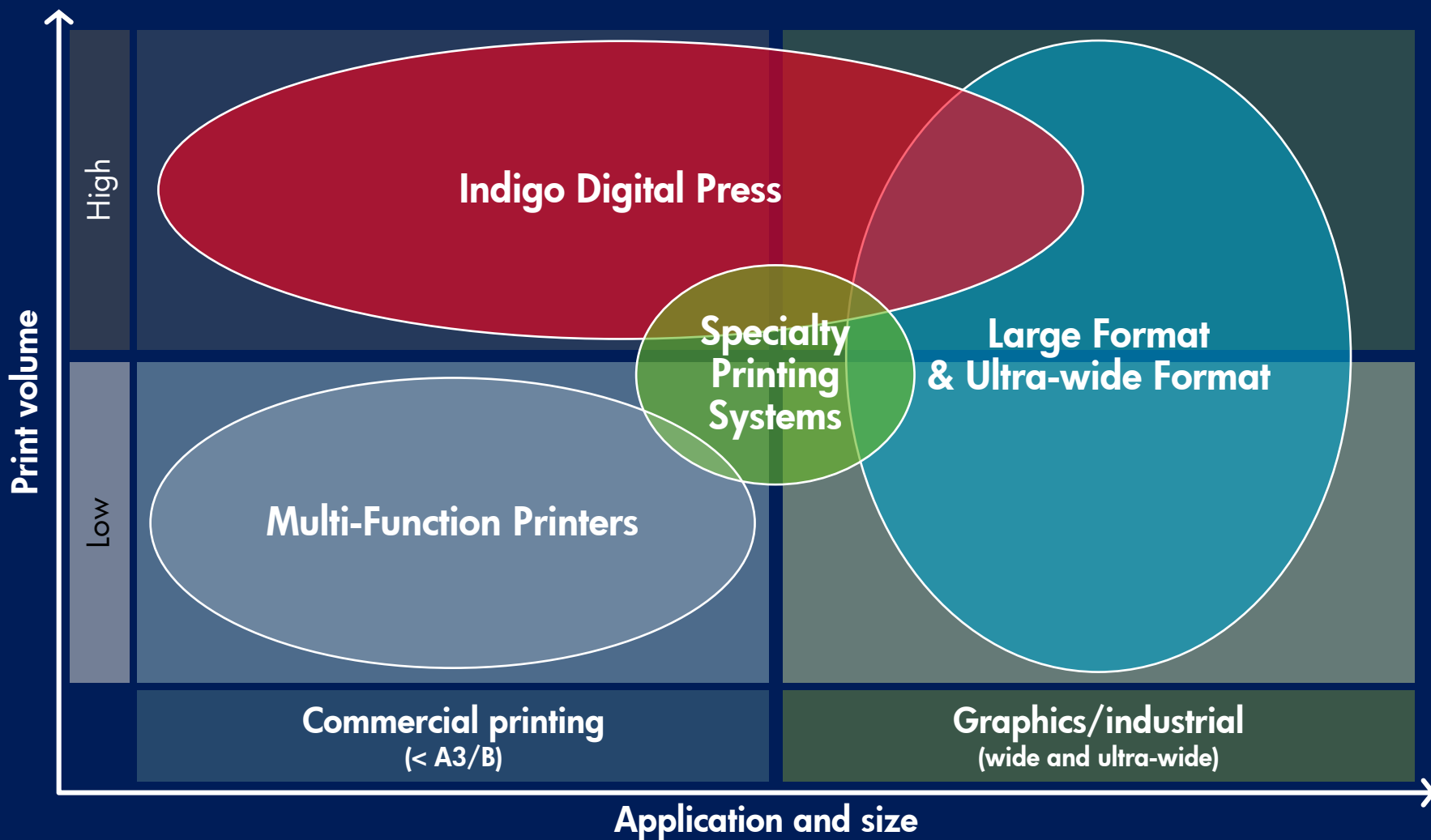
- Single function inkjet printers
- Mono office
- **Large format**



# HP's comprehensive digital portfolio

| IPG business                              | Core technologies                     |
|-------------------------------------------|---------------------------------------|
| Ink systems and scalable printing systems | Thermal inkjet                        |
| LaserJet and MFPs                         | Dry EP                                |
| Designjet large format                    | Thermal inkjet<br>Piezo inkjet (SIIT) |
| Indigo digital press                      | Liquid EP                             |
| Scitex Vision (ultra-wide format)         | Piezo inkjet                          |

# High-end printing portfolio



# Printer-based multi-function printers (MFPs)

- \$24B addressable market in 2005
- Q205 Segment 4 market share of 15%
- On track to achieve 10% S2-S4 share goal by exit 2006
- Estimated 30% increase in printed pages over single function devices
- Market trends include
  - Imaging & printing optimization in the office with ~30% TCO reduction
  - Adoption of distributed MFPs
  - Mono to color transition



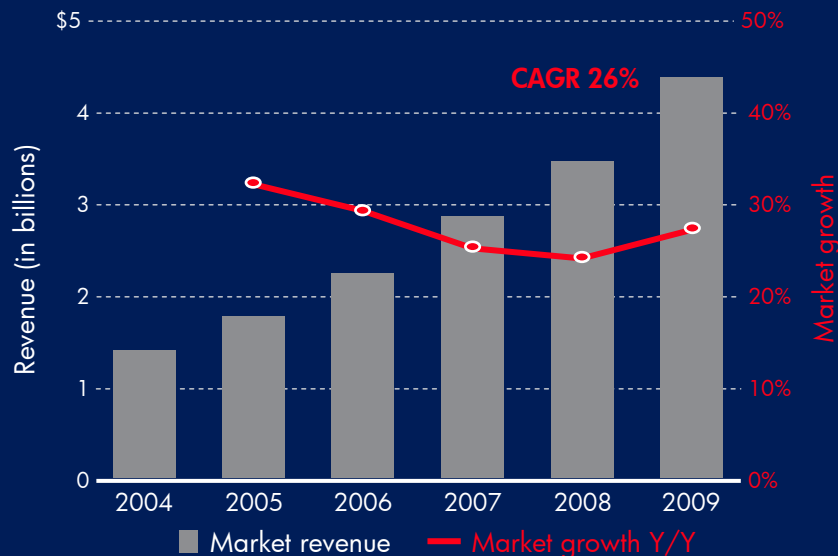
# The digital printing transformation

- **Increased flow of digital information**
- **Digital printing technologies continue to advance:**
  - Higher quality
  - Lower costs
  - Higher speed
- **Graphics arts industry transformation:**
  - Shorter runs
  - Customized/personalized content
  - Fast turn-around projects
  - New revenues and business models
- **Recent announcements**
  - Completed acquisition of Scitex Vision
  - Strategic OEM agreement with Seiko Instruments Infotech
  - HP agreements with Creo, Heidelberg, and Agfa
  - Launch of HP Indigo press w3250
  - Offset capabilities on HP Indigo
  - Lenticular 3D
  - Digital Matte ink
  - Launch of HP M4000 Imager for digital imprinting

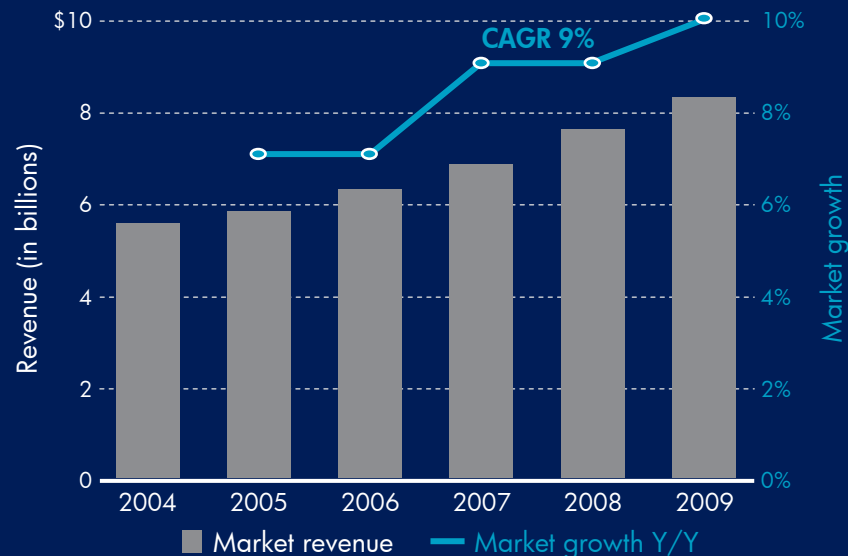
# Graphics & Imaging markets

## \$10 billion addressable market opportunity by 2008

### Digital Press Market



### Large Format Market



### Indigo Digital Presses



### Large Format



# HP Indigo digital press

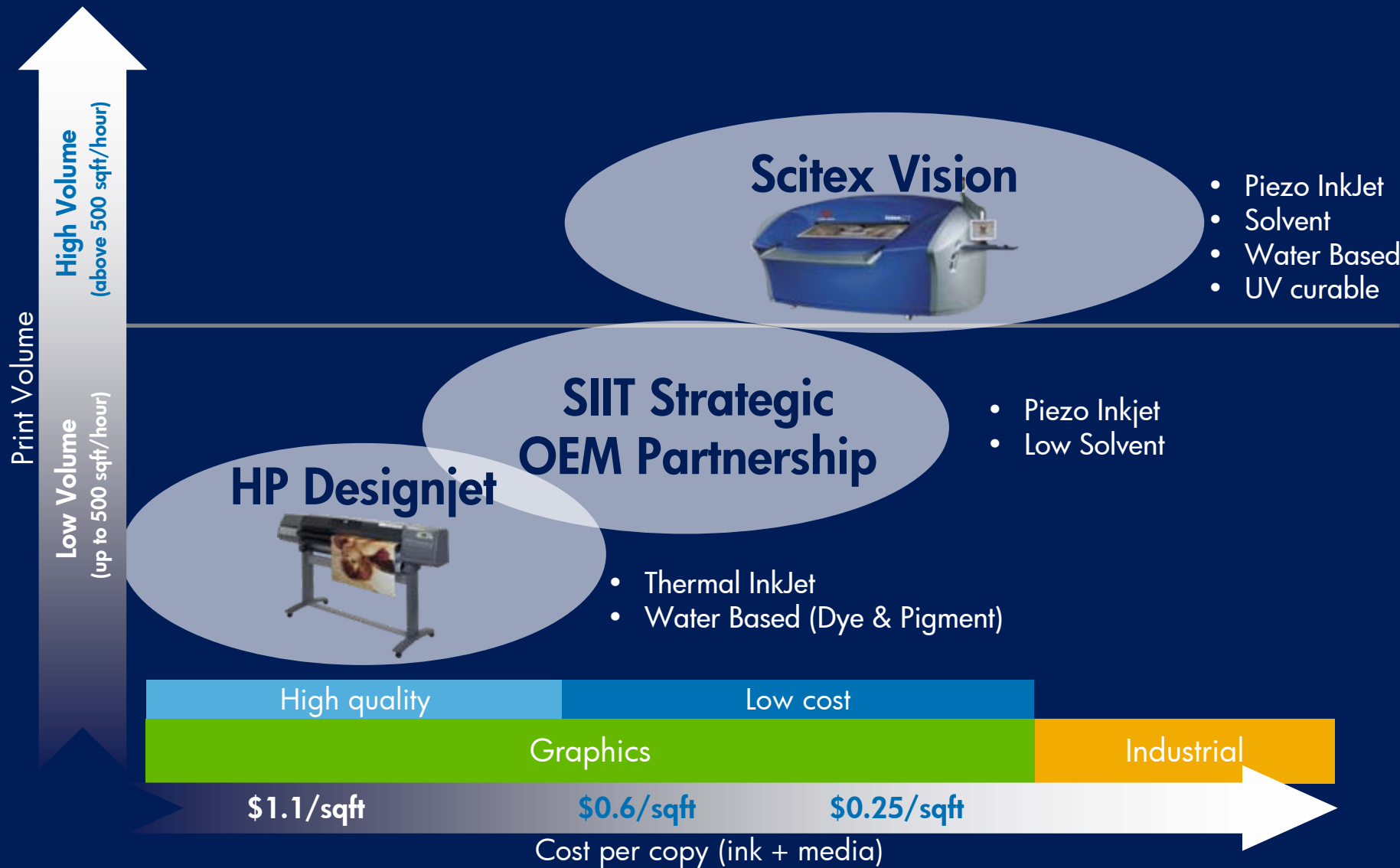
## Innovation = offset quality

- The only digital press with true ink-on-paper offset quality
- Up to 7 colors, including spot colors & ink mixing system
- Solid page growth of ~40% Y/Y for the last 6 quarters
- Seybold Report - July 2006
  - “The result from the HP Indigo 5000 could just as easily have come from an offset press.”

| Conventional Offset | HP Indigo Digital Offset       |
|---------------------|--------------------------------|
| Long runs           | Short runs                     |
| Static data         | Variable Data printing         |
| Speed               | Fast turnaround / productivity |
| Ink on paper        | Ink on paper                   |



# HP large format solutions



# Conclusion

- HP is the market leader in imaging and printing
- IPG will drive profitable growth
  - Strengthen and extend the core
  - Lead in digital photography
  - Capture copier pages
  - Capture creative/marketing collateral
  - Grow industrial printing
- HP has a solution strategy for capturing and accelerating analog to digital transition in printing
- Innovation is required for leadership and profitability





i n v e n t

# Combined company

In order to provide additional information relating to our operating results, we present certain consolidated and segment operating results as if HP and Compaq had been a combined company in fiscal 2002 and 2001. We have included this additional information in order to provide further insight into our operating results, prior period trends and current position. Due to different fiscal period ends for HP and Compaq, the results for the twelve months ended October 31, 2002 combine the results of HP for the twelve months ended October 31, 2002 and the historical quarterly results of Compaq for the six-month period ended March 31, 2002 and for the period May 3, 2002 (the acquisition date) to October 31, 2002. In addition, the results for the twelve months ended October 31, 2001 combine the results of HP for the twelve months ended October 31, 2001 and the historical quarterly results of Compaq for the four quarters ended September 30, 2001.

# FY05 GAAP to non-GAAP bridge

All data in \$Ms except per share amounts

| FY05                  | GAAP     | Amort. of Intangibles | Re-structuring charges | In-process R&D | (G)/L Invest. | Pension curtailment | AJCA Adj | Non-GAAP |
|-----------------------|----------|-----------------------|------------------------|----------------|---------------|---------------------|----------|----------|
| Revenue               | \$86,696 |                       |                        |                |               |                     |          | \$86,696 |
| Cost of sales         | 66,440   |                       |                        |                |               |                     |          | 66,440   |
| Total OpEx            | 16,783   | (622)                 | (1,684)                | (2)            |               | 199                 |          | 14,674   |
| Operating profit      | 3,473    | 622                   | 1,684                  | 2              |               | (199)               |          | 5,582    |
| Settlement            | (106)    |                       |                        |                |               |                     |          | (106)    |
| Interest & other, net | 176      |                       |                        |                | 13            |                     |          | 189      |
| Pre-tax earnings      | 3,543    | 622                   | 1,684                  | 2              | 13            | (199)               |          | 5,665    |
| Income tax            | 1,145    | 185                   | 466                    |                | 3             | (54)                | (788)    | 957      |
| Tax rate              | 32%      |                       |                        |                |               |                     |          | 17%      |
| Net earnings          | \$2,398  |                       |                        |                |               |                     |          | \$4,708  |
| EPS                   | \$0.82   |                       |                        |                |               |                     |          | \$1.62   |

# Q4 FY05 GAAP to non-GAAP bridge

All data in \$Ms except  
per share amounts

| 4Q05                  | GAAP            | Amort. of<br>Intangibles | Re-<br>structuring<br>charges | In-process<br>R&D | (G)/L<br>Invest. | Pension<br>curtail-<br>ment | Non-GAAP        |
|-----------------------|-----------------|--------------------------|-------------------------------|-------------------|------------------|-----------------------------|-----------------|
| Revenue               | <b>\$22,913</b> |                          |                               |                   |                  |                             | <b>\$22,913</b> |
| Cost of sales         | <b>17,532</b>   |                          |                               |                   |                  |                             | <b>17,532</b>   |
| Total OpEx            | <b>5,149</b>    | (136)                    | (1,565)                       | (2)               |                  | 199                         | <b>3,645</b>    |
| Operating profit      | <b>232</b>      | 136                      | 1,565                         | 2                 |                  | (199)                       | <b>1,736</b>    |
| Settlement            | <b>3</b>        |                          |                               |                   |                  |                             | <b>3</b>        |
| Interest & other, net | <b>146</b>      |                          |                               |                   | (14)             |                             | <b>132</b>      |
| Pre-tax earnings      | <b>381</b>      | 136                      | 1,565                         | 2                 | (14)             | (199)                       | <b>1,871</b>    |
| Income tax            | <b>(35)</b>     | 40                       | 429                           |                   | (5)              | (54)                        | <b>375</b>      |
| Tax rate              | <b>(9%)</b>     |                          |                               |                   |                  |                             | <b>20%</b>      |
| Net earnings          | <b>\$416</b>    |                          |                               |                   |                  |                             | <b>\$1,496</b>  |
| EPS                   | <b>\$0.14</b>   |                          |                               |                   |                  |                             | <b>\$0.51</b>   |