HEWLETT PACKARD CO
Form DFAN14A
January 24, 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

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[ ] Preliminary Proxy Statement
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HEWLETT-PACKARD COMPANY

(Name of Registrant as Specified In Its Charter)

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

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
Payment of Filing Fee (Check the appropriate box):

[X] Fee not required.
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
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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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(1) Amount

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

[1] HP 425, 9/25/01, Ms. Fiorina s speech to the European IDC Forum, p. 2

[2] Amendment No. 2 to HP form S-4, 1/14/02, p. 50; HP Letter to Shareholders, 1/18/02; Financial Times 1/19/02; TheDeal.com, 1/21/02

[1] Goldman Sachs comparable company index is comprised of companies used by Goldman in performing its Selected Companies Analysis in connection with rendering its fairness opinion to HP relating to HP s proposed merger with Compaq and includes AAPL, ACN, CSC, DELL, EDS, EMC, GTW, IBM, KCIN, NTAP, and SUNW. Index is weighted by shares outstanding.

[1] HP 425 Filing, 12/19/01, p. 30

[2] Represents the value of the core dilution of the transaction before the realization of cost savings at HP s current 2002 calendar year price-earnings multiple of 23.7x. Calendar 2002 pro forma earnings before cost savings calculated based on First Call consensus earnings estimates of $0.89 and $1.27 for HP for fiscal years 2002 and 2003, respectively, and $0.25 for Compaq for its fiscal 2002. Under management s present value methodology, the core dilution has a value of $3.36 per share based on calendar 2004 earnings estimates.[3] [HP s pro forma] financial statements do not include any adjustments for liabilities resulting from integration planning, as

management of HP and Compaq are in the process of making these assessments, and estimates of these costs are not currently known. However, liabilities ultimately will be recorded for severance or relocation costs related to Compaq employees, costs of vacating some facilities (leased or owned) of Compaq, or other costs associated with exiting activities of Compaq that would affect amounts in the pro forma financial statements. In addition, HP may incur significant restructuring charges upon completion of the merger or in subsequent quarters for severance or relocation costs related to HP employees, costs of vacating some facilities (leased or owned) of HP, and other costs associated with exiting activities of HP. Amendment No. 2 to HP S-4 Filing,

01/14/02, p.
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[1] For complete detail on sources, see page 49 of the Report to the Trustees of the William R. Hewlett Revocable Trust on the Proposed Merger of Hewlett-Packard filed with the SEC under cover of Schedule 14A on 11/16/2001

[2] Analysts estimates exclude Salomon Smith Barney as they are advisers to Compaq[3] Parties to Walter Hewlett proxy solicitation[4] HP Position on Compaq Merger, 12/19/01, p. 27[5] Represents Post-deal 1999 performance vs. analyst estimates. For complete detail see p. 50 of reference in footnote No. 1[6] Computer Company results outlined in McKinsey Quarterly, Why Mergers Fail, 2001 Number 4. (Name of actual company disguised in article). In early 2001, HP retained McKinsey & Co. to assist in HP s evaluation of strategic alternatives and potential acquisition candidates including Compaq[7] Sun 10Q, 10K, Sun 1/18/02 earnings press release. Represents 12 month

period ending 12/31, (FY ends 6/30)[8] HP 11/14/01 earnings press release. Represents 12 month period ending 10/31 (excluding restructuring and merger-related costs)[9] Apple FY2001 10K. Represents 12 month period ending 9/29[10] Compaq earnings press release 1/16/02. Represents 12 month period ending 12/31 (excluding restructuring and merger-related costs)[11] Morgan Stanley, Gateway: Better Margin Structure, Lower Rev Run Rate, 1/8/02, page 3[12] FFL/Parthenon assumption based on historical experience of tech companies, revenue loss in services, and high fixed cost assumptions post planned cost synergies[13] Amendment No. 2 to HP S-4, 1/14/02, p. 53 ...weighted average contribution margin of 12%...

[1] McKinsey Quarterly, Why Mergers Fail, 2001, Number 4. In early 2001, HP retained McKinsey & Co. to assist in HP s evaluation of strategic alternatives and potential acquisition candidates including Compaq

[1] Based on First Call estimates as of August 31, 2001

[2] Based on First Call estimates as of January 18, 2002

[3] See page 15 of this presentation

page 14

[1] An index of comparable companies missed earnings by 2% and 46% in 2000 and 2001 respectively. This index is comprised of companies used by Goldman in performing its Selected Companies Analysis in connection with rendering its fairness opinion to HP relating to HP s proposed merger with Compaq and includes AAPL, CSC, DELL, EDS, EMC, GTW, IBM, NTAP, SUNW, excludes ACN and KCIN as they were not publicly traded on January 1, 2001. Index is weighted by shares outstanding. Numbers are calendarized for each quarter, especially relevant for companies with odd fiscal years (HP, DELL).

[1] Based on assumptions similar to management s outlined on page 30 of HP Position on Compaq Merger, 12/19/01. Present values, except for core dilution and cost to achieve savings, calculated as of January 21, 2002 based on a 20x forward price-earnings multiple applied to net earnings impact in calendar year 2004. Assumes 26% marginal tax rate

[2] Assumes net pre-tax cost savings in calendar year 2004 of $2.0 billion based on $2.5 billion in cost savings and $0.5 billion in lost profit on lost revenues. Lost profit calculation assumes $84.0 billion in revenue in calendar year 2004 before revenue losses, 4.9% revenue loss, 12% contribution margin.[3] Represents the value of the core dilution of the transaction before the realization of cost savings at HP s current 2002 calendar year price-earnings multiple of 23.7x. Calendar 2002 pro forma earnings before cost savings calculated based on First Call consensus earnings estimates of $0.89 and $1.27 for HP for fiscal years 2002 and 2003, respectively, and $0.25 for Compaq for its fiscal 2002. Under management s present value methodology, the core dilution has a value of $3.36

per share based on calendar 2004 earnings estimates.[4] Realistic case based on $1.3 billion restructuring charge established in connection with Compaq s acquisition of DEC in 1998, which also involved approximately 15,000 layoffs, and the $635 million in retention bonuses announced by management in the proposed HP/Compaq merger. Downside case based on 50% premium to realistic case (11.4% of transaction value). Compaq/DEC restructuring charge as a percentage of transaction value was 13.5%. Excludes the impact of new employment agreements with Ms. Fiorna and Mr. Capellas. Assumes cash is paid out ratably over the first six months following closing[5] Realistic case based on BofA, Hewlett-Packard: Management Turns up the Heat, 12/19/01 base case of 87.8% of management estimate realized in 2003 ($1.8 billion assumed vs. management estimates of $2.1 billion). Downside based on BofA downside case 75.6% of management estimate realized in 2003 ($1.6 billion assumed vs. management estimates of $2.1 billion).[6] Realistic case based on historical experience of tech companies, revenue loss in services, and higher fixed cost assumptions post planned cost synergies. See analysis presented on p. 21-26. Downside case based on discount to Compaq/DEC transaction.[7] Realistic case assumption based on historical experience of tech companies, revenue loss in services. Downside case based on discount to McKinsey computer company example (see Revenue Loss Benchmarks on p. 12).

[1] See footnotes on page 16 for bases of assumptions

[1] HP Position on Compaq Merger, 12/19/01, p. 27
[2] In the Aftermath of the Compaq Deal, SG Cowen Perspectives, 10/10/01 only firm to provide a comprehensive segment breakout. CPQ Deal will Produce a Stronger Competitor...But, UBS Warburg, 10/29/01 states that The history of server combinations indicates that 35% or more erosion to the acquired customer base can be expected, which translates into a 19% loss of Enterprise revenues for the combined company.[3] For complete detail on sources, see page 49 of the Report to the Trustees of the William R. Hewlett Revocable Trust on the Proposed Merger of Hewlett-Packard filed with the SEC under Schedule 14A on 11/16/2001[4] Party to Walter Hewlett Proxy solicitation[5] Representing Compaq in Proposed HP/Compaq Merger[6] Reference note 3, p. 50

[1] HP 425 Filing, 12/19/01, p. 44

[2] UBS Warburg Alpha Customer Study, Hewlett-Packard: It s About Revenues, 12/13/01

[1] Sun 10Q, 10K, Sun 1/18/02 earnings press release. Represents 12 month period ending 12/31, (FY ends 6/30)

[2] HP 11/14/01 earnings press release. Represents 12 month period ending 10/31 (excluding restructuring and merger-related costs)[3] Apple FY2001 10K. Represents 12 month period ending 9/29[4] Compaq earnings press release 1/16/02. Represents 12 month period ending 12/31 (excluding restructuring and merger-related costs)[5] Morgan Stanley, Gateway: Better Margin Structure, Lower Rev Run Rate, 1/8/02, p. 3[6] FFL/Parthenon assumption based on historical experience of tech companies, revenue loss in services, and higher fixed cost assumptions post planned cost synergies[7] Amendment No. 2 to HP form S-4, 01/14/02, page 53 ...weighted

average
contribution
margin of
12%...[8] Represents
Post-deal 1999
performance
vs. analyst
estimates. See
p. 12

page 22

[1] UBS Warburg, Hewlett-Packard: It s About Revenues, 12/13/01. Survey found that 90% of Compaq Alpha customers would consider another vendor if HP plans to migrate them. This is in contrast to HP s representation that revenue losses would come from lower margin products (HP 425 Filing, 12/19/01, p. 44)

[2] HP 425 Filing, 12/19/01, p. 45[3] SG Cowen, In the Aftermath of the Compaq Deal, 10/10/01, p. 6

[1] HP 425 Filing, 12/19/01, p. 27, footnote (2)

[2] For sources, see page 12 of this presentation

[1] HP 425 Filing, 12/19/01, p. 19.

[2] Profit Contribution = Operating Income + Fixed Costs; therefore, Profit Contribution Operating Income = Fixed Costs. Total fixed costs defined as fixed operating expenses plus fixed COGS[3] One time costs as step costs

[1] Based on weighted average operating margin of 6.1% on lost revenues and weighted average gross margin of 20.7% on lost revenues. Operating margin calculated from Management s segment operating margin statements on p. 19 of HP 425 filing, 12/19/01. Revenue loss estimates by segment from SG Cowen, 10/10/01, Hewlett Packard, In the Aftermath of the Compaq Deal, p. 9, and UBS Warburg, 10/29/01, CPQ Deal Will Produce a Stronger Competitor But...., p. 1, as described on page 20 of this presentation. Gross margin calculated from Management s statement of 11% for Access (p. 27, p. 45, in 425 filing, 12/19/01) and uses SG Cowen s FY03 gross margin of 35.6% for IT Infrastructure and 28% for Services, as they are the only firm to provide a segment breakout for FY03. Though management has not specified the gross margins for these segments, we assume that SG Cowen has been guided by management to arrive at reasonable Enterprise and Services gross margin estimates. These gross margins by segment are weighted to arrive at weighted average gross margin for lost revenues using the methodology described above.

[2] HP 425 Filing, 12/19/01, p. 27, footnote (2).[3] Weighted average fixed costs as a percentage of COGS for lost sales in Access, Enterprise and Services. We assume Access has the lowest fixed costs as a percentage of COGS; Enterprise has several percentage points more fixed costs as a percentage of COGS than Access; Services has substantially higher fixed costs as a percentage of COGS since the majority of Services costs are in salaries of professionals, which are more fixed than manufacturing costs

[1] One time costs as step costs