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Abstract: The 2008 EDS Securities Analysts' Meeting was held on Tuesday, 19 Feb 2008, from 9:00 a.m. ET until 12:30 p.m. ET at the Millennium Broadway Hotel in New York, NY. EDS' executive leadership team provided an update on 2008 financial and operational goals and initiatives, as well as the company's longer-term strategic, operational and financial goals and initiatives. This transcript covers Charlie Feld's discussion on Applications Services.

CHARLIE FELD (EDS – SENIOR EXECUTIVE VICE PRESIDENT APPLICATIONS SERVICES): Let me address the application space which is very exciting for us. As we look at the changes that we've made over this past year, I'm going to cover the growth plan, the business model changes that we've implemented, the market opportunity as we see it, and then the points of differentiation as we've met with our clients and with the industry analysts.

First, from a growth plan point of view, I stole this chart from a few of you over the last couple of years, and this is what we consider the addressable marketplace. I could be off by \$10, \$20 billion, but it's big. The important part of that chart is there are parts of the applications business that are lower margin and parts that are higher margin, parts that have cash implications because of severance and parts that have no real cash implications because it's project work. There's also a flavor of staff augmentation, time and material and value pricing. So as we look at our business within that, and as Ron and Joe pointed to, our business is fairly low in that quadrant and left-sided, yet has been a pretty substantial business, approximately \$6.7 billion worth of business. Contrary to what people generally think, though, we do a lot of project work inside of that applications management, so about a third of that is real project work that we are doing for existing clients, which is continuing to grow over time. So as you look at what we have done, our first strategy has been for the last year or two to defend the base. That is a very valuable base and one that we cherish, but in order to defend it we've had to cannibalize and aggressively go after it, as opposed to sitting back on our heels.

The second part of the strategy, which we began talking about last year, is to grow up-stack, which generally means moving more into value pricing, more into managed work, more heavily into the project side of the business. Not that we want to walk away from the applications management, and you'll see more of that, so ours is three-pronged: to continue to grow the core business and then to grow up-stack toward C and D. To do that, we've reoriented ourselves from a business model point of view and made investments in certain practices and in certain industries. If you look at the big change that we made over the last year, is that all regions are now organized for applications by industry. This was not true a year ago because the way you move up-stack is you go in and talk to banks about banking, you go in and talk to airlines about airline, and telcos about telco.

The second part of the business model change is to get our teams focused on and give them the tools to understand the economics of their particular accounts in terms of margin, free cash flow, the point-of-sale model, the execution toward that point-of-sale model, utilization, things that as a delivery organization over the years we have not really concentrated on within the Application Team. That required giving them the information and also, to a large extent,



as Ron said, upgrading leaders of our key accounts that come from more consulting environments where they understand the economics of the business, not just the cost recovery.

The third big change in the business model is our whole selling system has been built around an outsourcing selling model. It's really not about apps and ITO; it's about outsourcing versus projects. An outsourcing model has a long cycle time. It is six to twelve months. It is third-party lead. It is back and forth in terms of how that operates. And we do extremely well on that as you've seen in some of the big wins we have had in the applications arena and also in the infrastructure arena. We're not looking to change that because we want to continue to win the outsourcing business. What we have done is we have added a different selling system within the same channel in terms of a different dynamic which is sold in more of a three- to six-week sell cycle where you are beginning to staff within three to six weeks, which requires a bench, which requires a connectivity between the sell side and the deliver side so that you sell into capacity. And the ability to operate in these two different environments is a big change that we have made over the last year.


When you look at how this begins to play out in terms of kind of an end-to-end view, organizing by industry across all regions allows us to connect those regions sell side into a plan to where all financial institutions now can be viewed as an aggregation, and work begins to be stood up in Best Shore locations and onshore locations for each of the major financial institutions that we manage. And then to be able to take that and reorient our development centers from being organized by .NET and Java and different skill sets to be organized by industry and to move away from next available bench, which is more tuned for the outsourcing business and more into a sell-into certain environment. So we have designated certain locations on the globe for financial services, pick up the demand signal coming out of the accounts, rolled up by industry, rolled up by regions, and then that's their place where they go to do the work. So we have organized our centers by industry over the last year.

And when you connect that up end to end, you see the full cycle of sell/deliver; sell into those locations, know you have a bench on the other side of it, know what your capabilities are, connect it back to the demand signal. And again, we didn't invent this; we copied it. It would be too hard to invent this, but to put this inside of EDS and embed that selling system inside of our existing accounts is what has been the work over the last year so we don't have multiple channels calling on the same accounts. All play behind the AE in the selling system.

In order to make that happen, we have a phenomenal amount of capability in Best Shore, but it had been more isolated by region. And like I said, the way we placed work was more in an outsourced – this account goes to this location – as opposed to changing the model to an industry model of a network of competency centers that do financial work or that do manufacturing or do telco work. And in order to make that happen, we have combined our Best Shore operations for scale, and when you put it together, even though they are in different locations, well, so are the people on the left side. They are no longer just in India. Making that work virtually across the globe is our changes that we have made.

Now, if you look at the thing that pulls it together, the next change that we have made is we have been a very good account-centric model where we have quality methodology at each account, but in order to make this global system work on an industry-wide basis, what we have done is we have made investments in the tooling and the knowledge systems that all accounts work off of. Otherwise, the people are not fungible back and forth across the environment. So this is the notion of development teams using common methodologies and connecting that up to what I'll refer to as Industry Frameworks. I think I have talked to this group about that before. Because if you are going to be able to value price, you are going to have to really focus on industry-level IP, so delivering from one banking or one financial services client to another, common reusable components, and moving knowledge across requires that you have this kind of knowledge management and methodology systems. We have made those investments. Those are being deployed now.

If you look at why that's important, probably the easiest way to explain this is if you look at building a system, it's like building a house. If you built a house that looks like that a hundred times, life is more predictable, it's quicker, and you can count on the results at a better price, because you have got in addition to the picture of the house, you have got floor plans. In addition to the picture of the floor plans, you have wiring diagrams. In the case of IT, it's messaging infrastructures, data models and so forth. And then finally, having prefabricated components like windows that come fully encased that you could just put in instead of building them from scratch, because we believe that to build systems going forward and to modernize, it really is not about building a lot of code; it's about integrating a lot of different pieces. And the more reusable components you have by industry, the more you can value price and get to that upper right-hand corner. So if you look at our knowledge that we have in healthcare, the knowledge that we have



in reuse and manufacturing, in defense, in transportation; being able to leverage that on a global basis is the work we have been doing over this past year to reorient our teams across this value chain.

Now, if you look at why that matters is we know our accounts, and we have a phenomenal opportunity in terms of wallet-share growth in our existing accounts. So when we say defend the base and grow up-stack, it's not just new logos; it's really going after the work of modernization inside of our existing accounts. And some of our accounts have systems that are 40 years old, 20 years old, 30 years old, made up of multiple mergers and acquisitions, so they have very complex legacy environments that are very difficult to modernize. And modernizing is about taking those complex legacy systems and, for those of you that work at banks, you know what they look like. They are Assembler, they're COBOL, they're mainframe and very rigid, and our client and legacy knowledge is really key to taking those apart and not losing a day's worth of processing as opposed to somebody that does not know them – combined with most clients are not writing new code, they are putting in packages that have got to be integrated back into the legacy environments. And that's why we've really accelerated our growth into the SAP practice, because we are heavily dominated by SAP, and Oracle, if you look at who owns the package world right now. And what we have done is we have done with our alliance or, more than an alliance, it's a working partnership with SAP, who is looking for additional systems integrators, particularly ones that could go into places that don't not have SAP – they have 15 SAPs – and get them consolidated and harmonized. And if you look at where we're headed, is we are headed to become a tier-one provider between now and 2010. Oracle is a work in progress, more to come as we go over the next couple of months, and then the third major global practice that we have launched, in addition to the industries, inside of the regions is testing because testing will be extremely critical as you begin to take apart these 40-year-old legacy systems, install packages and get them harmonized. The ability to have end-to-end testing is critical.

If you look at the point of difference, it really comes down to a little bit of what Kevin had set up. Our clients want to move to more self-service, more edge technology, more mobility. In order to do that, security is a huge issue, because once you begin to move out of your buildings and have customers and employees and suppliers connected to your system, the way of doing security has got to change, and then that fundamental network has got to stay up. So as companies felt the impact of cable cuts in the ocean over the last few weeks, our network has been resilient and none of our clients have been impacted by any outages relative to the network. And then all of that has got to tie into servers and storage, and you've got to start from the legacy base that you have and move up-stack into these industry frameworks.

So when you look at what we consider systems integration, it is all of that. You can't stop and talk about systems integration at the top three lines which is industry frameworks, systems integration and applications development. You've got to go all the way down to the network, all the way down to the security, because you cannot run edge-oriented, always-on global systems on frame relay networks and servers that were VAXs that will go down over time.

As Kevin said, we have made a lot of investments with our alliance partners and we have built high-performance virtualization engines, highly-secure security and identity management that we use in the military, and our ability to pull those threads together in a Designed for Run because it is critical to our clients and is resonating. If you look at the build cost, the build cost is a fraction of what it's going to cost people. We've seen build projects that were set at \$20 million that cost \$40 million a year to run because they weren't designed properly. The scale, the surge capacity wasn't there, security wasn't there. We have a heritage of Designed to Run in the mainframe world where resources were scarce. In the client-server world, asset utilization is pitiful; it's 20%. In a SOA world or a service-oriented or an edge-oriented world, if you design that wrong, the cost to run and the operability and the zero outage just goes away. So we have really lined up behind this Designed for Run mentality, designed the application with run in mind, reverse-engineer total cost of ownership and look at the whole proposition, not my programmers are cheaper than yours.

So when you look at the application growth plan, we have defended our base and we are growing and we're beginning to grow up-stack. We have made the business model changes that I talked about. We have a huge opportunity with growth on existing in addition to new logos, but growth on existing is a huge marketplace for us. And our clients have really resonated as have the Gartner's and the Forrester's and the IDC's with this Designed for Run and a recognition that EDS is one of the few application companies that could go full stack.

Okay, with that, I will turn it over to Jeff Kelly who runs the Americas.

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