2008 SECURITIES ANALYSTS' MEETING
REGIONAL UPDATE – AMERICAS

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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 Jeff Kelly's regional update for the Americas.

JEFF KELLY (EDS – EXECUTIVE VICE PRESIDENT, AMERICAS REGION): All right, I'm going spend some time – I'm the first guy up to talk to you about the regions. I think a good way to look at the regions at EDS is – we've given you an update about the ITO business at EDS and the applications business at EDS – what the regions really do is we go to market and bring those business solutions. We blend the applications business and the ITO business together for business solutions and value propositions to clients that they want to buy, primarily aimed at running a better manufacturing company, running a better airline and so on.

So I want to begin today with just describing the Americas team to you since it was organized in 2007. If you watched us at all, we announced North America in February of 2007, and throughout the year we added complements to the Americas Team and finished it as a unit towards the end of the year. It's housed by the United States market, and typically what we do in these markets is you'll see we're a geography-based organization, but very quickly under these geographies we go to industry because that's fundamentally where the value proposition is. So our accounts, our sales teams, are organized in geographies. In the US specifically we have seven industries that we go to market in. We also have General Motors in our client base. This is our largest client, a global manufacturer. We added Canada and Latin America toward the end of the year. It's about 52,000 employees, men and women that serve these enterprise clients across that spectrum. In our portfolio we have about 700 clients in that group, as well as about $10 billion in revenue. And I just want to share with you some common logos. Many of them will be familiar to this room, household names, strong regional players: American Airlines, Ahold. Some of these clients are also global in their own right. It allows us to bring some of those value propositions that Charlie and Kevin talked to you earlier about.

The market – it's about $180 billion market for us. We see that market growing in the 5% to 6% range in CAGR over the next three years. There has been a lot of discussion about recession in the United States. It is my largest portfolio, and we have looked at that over history in EDS. A lot of times what you see in these kinds of conditions is new logos and clients pursuing structural cost improvement. We don't necessarily see at this point any demand downturn; actually the pipeline is up. Many of our clients are seeking structural costs and turning that more into variable costs which is part of our value proposition. Also, we do see smaller deals, and I think you saw in Kevin's presentation tower-centric, multi-sourcing is coming at us, but the number of deals is going up. And finally, one of the most attractive markets to us and one that's growing quicker in our side of the business is the application and systems integration space, so it represents significant upside for us as we execute that strategy.

I want to spend some time discussing the priorities for the Americas teams with you this morning. The first one is we're focused on margin expansion and free cash flow over revenue growth. What you can expect from us over the next three years is a margin expansion of 300 basis points – and I'll take you through that towards the end of the presentation – driven primarily by Best Shore. We spoke to you earlier this morning about Best Shore. That's something we've been doing for a while and that's a continued strategy to get better positioned in lower cost labor markets. Our applications business is more of a mix kind of a play where we see higher value-add and higher margins as we sell into that business over the next three years. And as Kevin spoke to you about earlier, we've made significant investments in our ITO business and those are panning out for us. We see both wins based on that differentiated value but we also see structural cost improvement, and we're continuing to employ what we call SDA and BMT which are those two programs in the ITO business which yield productivity improvements over that term.

Second, and I spoke about industry-based value propositions, we're going to maximize our investments in that particular space as we do have a lot of industry-led investments in my portfolio. I'll talk about three of them here. It's not that we don't invest in every industry, but we think we have very strong value propositions and lead in specific parts of the industry. You can expect over the three years an annual growth rate from the Americas team at 3% to 4%. Specifically, just to give you some insight into the kind of investments we make in the region, we spend about $70 million a year in our healthcare platforms. These are applications and technologies we own that service the commercial market in healthcare as well as the Medicaid and Medicare space. Air service and transportation is another industry where we own intellectual capital that has reservation systems and how to run better airlines.

And finally, we have a fairly substantial business in consumer direct in our consumer industries and retail business where it's warehousing and distribution along with call centers and application sets that run that business. Our intention here is to continue those investments primarily because we feel we lead in the market in these areas and we want to have a continued leadership and it will take that kind of investment. That's not new investment to us; it's been in our run rate for the last several years and what you can expect here is we'll continue that investment over the next three years in adding capability.

Charlie talked to you about SAP where we made substantial investments. We're rolling that out in an industry configuration, so we have what we call an ICS team which is an industry-based set of consultants and teams that will pursue SAP in our existing clients as well as new logo. And finally, application – and I'm going to talk a little bit about our sales team – application growth, as well as mix changes, over that time as we ramp up the SI business.

And finally, a differentiator. I've been with the company a long time. It's not a new proposition for us. We've always been based in delivering a value and quality to our clients. It is about zero downtime and relying on infrastructure and applications that do work for your business. We've made substantial investments in zero-outage strategy as well as our Lean Six Sigma programs yielding productivity and quality improvements for the clients we do serve.

I'm not going to go too far here into '08. I want to spend some time on '07, just to make the proof points in what I would consider to be some key wins for us. This is a win in Continental Airlines. They've been a client with us for several years. You saw we announced an extension of that relationship, seven years. This is really where we've brought our Application team and our infrastructure. It's very much a blend of all the services and capabilities we take to market for Continental Airlines, and again, the primary value proposition is let us help you run a better airline. So you'll see us collaborate with them in the airline transportation space and community over the next several years in bringing new applications to market. We win because we are innovative, we have leading technologies here and, as you can see, in the client statement. It was a big win for us because part of growing is keeping your current client base that you currently have.

A second contract that we announced toward the end of the year was the Bristol-Myers Squibb contract. This is an ITO global contract. It's important to us for two reasons. One is we won on the investment that we made in ITO in those client points that Kevin Torgerson talked to you about earlier. We won on innovation and leading the market here. But more importantly for us in the Americas team, it represents a key win in a pharmaceutical space that we hadn't had a lot of business in prior. Our market is like many of the consultancies and other competitors in here; you really need that marquee client. So in the automotive industry it's General Motors, CI&R we have KQ that Bill will speak to you about in Europe, as well as Kraft in the United States. Bristol-Myers represents a key win for us because it is our marquee pharmaceutical win and what you find here as you gain more credibility in the market, it drives more volume into your portfolio over time. In this case, it was innovation and so forth, and it also allows Bristol-Myers to focus on their core business which is solving for diseases in the market.

I want to transition a little bit into 2008, and I want you to focus on the left side of this chart first. A little bit about productivity, and these aren't necessarily new programs, they're programs we've had going on over the last year or two years.

First is the investment in restructuring that were going on and doing in the business based on process improvement and Lean Six Sigma investments. I didn't put a number on here because there are fundamentally two activities going on here. One is productivity improvement, but also velocity in some of our businesses. An example of that would be service requests or request management were customers of ours want to request new services. It's as much about velocity and customer experience in those kinds of investments as it is about productivity, but both provide positive yield to the corporation. The second is continuing to invest in our Best Shore strategy. We're expecting that to be about $30 to $40 million in improvement in cost structure for us this year in '08. Supply chain – another key aspect of our business – optimizing our supply chain as we're part of the supply chain of our customers. You can expect $50 to $60 million of improvement in cost structure here. And finally, an additional $60 to $80 million in process improvement with the continued deployment of SDA and BMT in the ITO space driving process improvement and best practice into our existing operation.

One thing I didn't put on this chart that is specific to the United States is you saw us announce an early retirement program in the fourth quarter. We're taking advantage of that. You can expect in the Americas team side of the business, that will be about a $100 million improvement for us as we'll only backfill a certain number of those positions. And I think you'll probably be familiar with a number that was larger than that, but I don't have all the US employees in the company as we don't have HR, Marketing and other parts of the business. But we represent the lion's share of the employees in that offer and expect that to be about a $100 million improvement for 2008.

Now, I want to take you and move you to the right side of this chart, the upper part of that chart. We do have a quality process that's been in the company for a long, long time. As part of that process we go out and survey clients every year. It's a minimum requirement we have. Sometimes it's two times a year. There's a survey and an interview process and what we're trying to do here is establish fundamental quality standards and getting baseline of quality improvement over time. We do this with third-party employees. They're EDS employees but they're not part of the account teams because we're very interested in third-party views and find that to be a better process. And we have a range of quality scores. The highest of those is top box quality. In the Americas team for 2007 we had a 30% increase in our top box scores. That's a direct correlation to some of the things Charlie and Kevin were talking to you earlier, but more a focus on zero outage and having better end-to-end capability for the clients we serve. And secondly, client innovation. This is an area of the business we focused on extensively in 2007. We had a 50% increase in innovation as it's one aspect of the survey we asked our clients about as they participate in those surveys.

On the bottom side of this, we've talked to you as a corporate goal is zero outages. For 2007 we had a plan to reduce our 2007 outages by 50%. You can see we had positive results here. In Sev 1s we had a 75% reduction in our Sev 1s which are outages that impact clients more extensively than the definition of a Sev 2, which tends to be more secondary in nature, but we also had a 56% reduction in Sev 2 outages for our clients. In 2008, we're setting another 50% reduction on top of that as our goal because we do believe that this is a differentiator for the company and we'll continue to press on that going forward.

In sales for 2007, my team had a heavy renewal year in 2007, so it was very much a defend-the-base kind of activity for us. That was driven by contract renewals but we also had a lot of consolidation in the market and some private equity activity that required renewal. We spent a lot of our sales efforts in 2007 to make sure we were successful there. We had some big wins in key segments. Specifically you saw us be very successful in the Medicaid market, taking share away from existing competitors as well as one that I took you through which was Bristol-Myers Squibb which was our first win in the pharmaceutical space. So I'd say we look at sales metrics, we had a very strong year both in close rate and win rate, win rate being TCV pursued, total TCV pursued, and close rate being of the total number of deals, how did we close the year out. So if you look at results in 2007, primarily driven by defend the base, let's win what we currently have and make sure that we can count on that going forward, build a backlog, we extended and expanded our pharmaceutical base of revenues going forward, and then continued success in Medicaid.

So for 2008, we are going to have TCV growth over this year. We're projecting growth based on two fundamental parts of the business. One is our aspirations and plans in the applications and systems integration side of the business. We have seen a pipeline increase from 2007, so we're going to lean into that and make sure we get our fair share of that expansion. And we've planned the same win rate in '08 as we had in '07, so we're not expecting that we would have any improvement in the win rate. We think we can hold the current win rate that we had in '07 and get that done for '08.

So when you look at the '08 sales strategy, a lot of work has been done the back half of 2007, integrating and preparing for entering and expanding our project and systems integration capability. We have integrated the MphasiS sales teams in the United States with our sales management process. We think this will give us an acceleration in our core business because these resources and professional sales people only sell applications and they sell systems integration work. We're also adding 20 sales people that are application experts in the sales community within my team, so we'll have a good start on the year. With bringing those additional sales people in, and we are ramping up sales within the team not just in the application area but also the core business in ITO and industry-based selling, Ron talked to you about the development program. We think this is key to acclimating new sales teams as they come in, get them started quickly on what EDS sells, what our value propositions are. fundamentally how do we go to market, so we launched the Sales Development Program to make sure we had positive acceleration in those programs.

And for '08, if you look at the pipeline, I would say early indications are we're seeing increased activity in the network activity. I have ten deals and substantial TCV in the network area. Kevin talked a little bit about network management and the value we provide there. We're seeing more and more customers and clients pursuing that value with us and you should look forward to awards in 2008 along the network space. And secondly, the energy segment has some interest in outsourcing and the advantages that it might lead to as far as cost structure and the things that EDS can do for them. So stay tuned in 2008. We think those two markets will be what's hot this year.

Finally, a walk in where the Americas team is going. I keep trying to get a line on this to help you guys see the 300 basis point improvement, but I failed to get that line on the chart, so I'm going to spend some time making sure you understand the dynamic. Remember on the earlier chart we had a 300 basis point increase in the Americas Team to get to a 17.2. My organization is the one that has to overcome the Verizon impact, so you can see we started with a 15.2% margin. We have about a 2% decline due to the Verizon runoff. The ERO gets about half of that back, about $100 million, so our starting point is really about a 14.2% for the Americas team. We'll use our productivity programs that I talked about to continue through the next three years to drive the next box. Growth is primarily growth in the business, pricing to value, the industry-led investments that I talked you through, and mix in the application space because it will have a higher margin than fundamentally some of our other ITO business. And we'll finish that off with account improvements in G&A and overhead to get us to the 17.3%. So it's a net starting from after the Verizon runoff of about a 300 basis point improvement.

So to sum it up, we are focused on margin and free cash flow improvement in the Americas team. We're going to continue to execute our quality initiatives which drives productivity into the business both for us and our clients. We are focused on industry investments as the US is fundamentally where we have most of our intellectual capital for industry-led opportunities, and typically we see higher margins in these spaces where we do have that intellectual capital. And finally, the sales plan leverages our strength that Kevin took you through in ITO and capitalizes on what we see are our great returns in our applications business.

Thank you and I'm going to turn it over to my colleague from Europe, Mr. Bill Thomas.

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