2008 SECURITIES ANALYSTS' MEETING
EDS OVERVIEW

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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 Ron Rittenmeyer's company overview.

RON RITTENMEYER (EDS – CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER): Good morning and thanks very much for attending our 2008 meeting. We certainly do appreciate your interest in the company.

I'd like to start today with a brief overview of 2007. 2007 was a very solid year of performance for us and we've made some positive headway in many areas. Changes in application services, beginning the rollout of automation tools on a broader base, and developing a stronger management team has really changed the identify of the company going forward. The growth and strength of a services enterprise is underpinned by its ability to align its capability with the business goals of its clients – all designed to be more responsive to changing market demands, competitive pressures, security concerns and regulatory requirements. We believe we've positioned ourselves, both internally and externally, to accomplish that goal. Our 2008 advertising, which will be revealed in about a month, and when you see it I think you should take note that we've aligned ourselves closer with our clients to deliver a message that will underpin our continued success. I can't show it today because it's a month out, but I would tell you that it's designed to truly bring us into focus as a company that really does underpin our clients' success. Also, driving growth requires that every piece of a business operation operates together in a global, consistent yet flexible and scalable way. Never before, we believe, has the need for seamless integration of business processes, applications and IT infrastructure been so critical. We're positioned to take advantage of these trends and we've made the adjustments in the model to capture the opportunity. So with that, let me just start with a review of 2007.

From a go-to-market and investment perspective last year, we closed two key acquisitions. I would tell you we looked at many but, frankly, pricing was excessive in almost every case, certainly during the early part, I would say, the greater part of the year through at least the late summer, and in the others we looked at during that period of time, frankly, we just couldn't make the value work, mostly driven by pricing. And the good news is we didn't do anything crazy. The two we did close though, RelQ really has established our apps testing practice which we see as a $13 billion market growing at greater than a 20% compounded annual growth. That was a good deal for us and it has really set us up as a global practice operation in applications. The second deal we did was Saber Government Solutions. That is really an applications business that has a tremendous number of platforms that cater to the demands of state and local governments worldwide. We've taken our local government business and moved it into that organization. One of the things that we wanted to be sure, we were so impressed with the team there and the way they did it, we did not want to, as we say, "EDS-ize" them and have a truck backing up to their front door with 400 operating manuals on it. We have kept them independent. They report actually to Dennis Stolkey in Government and to Joe Eazor in Strategy to make sure that we keep the flexibility and the speed at which they do things and we learn from them. So we've taken our local government business and put it into that organization.

We formed an alliance with SAP. We did announce that. We've invested in establishing an SAP practice. What is different is the amount of demand for these services within our existing client base is significant. SAP is providing us things like tools, training, their methodologies and even helping us with recruiting, so it's a significant jumpstart. We have about – and Charlie is going to talk about this – we have about 3,000 SAP people but they're scattered among a significant number of accounts, so we've started to pull them all together under a practice envelope and now we're going to add to that and really focus on a very distinctive SAP global practice.

In the past year we invested in and established systems to manage time, utilization, yield and project management for our application business. As we talk about application development, it's important you put in different tools that allow us to manage development differently than we operate in an application maintenance business. And remember, we have an applications business that is approaching $7 billion. From 2004 forward, we invested very heavily back into the business. Many of the ITO investments now have been fully made such as the Global Services Network and others are trending down. We're committed to driving the ROI in those investments but concurrently we're also now pushing our investment portfolio towards applications and BPO, which was always our plan.

From a sales perspective, we built our pipeline to higher levels each quarter when compared back to 2006, a much better pipeline than we've ever had. We started a new sales development program to ensure more effectiveness of our new sales recruits, so the people we bring in now, we have a fast-track sales development program, developed from a field perspective so it's not just a training program, it's an actual case study type program. Our key sales metrics have improved. I'll talk about those. We signed more deals and booked more annualized contract value than ever before, all of which supports the view on our improved sales engine.

When I look at the cost structure, we drove our offshore staffing up 28% in '07. We added over one million square feet of space and over 7,300 seats in our low-cost countries. The cost of our core G&A functions dropped by 5%. I don't think that's enough and it's something we're going to continue to focus on this year. Productivity again generated significant improvements to our cost structure which helped us offset price resets, wage inflation and also increased our operating margin.

We also received some serious industry recognition. Forrester named EDS the best global IT infrastructure outsourcing company and recognized us as a leader in European remote infrastructure management – that's RIMM that we read so much about. Gartner named EDS a leader in data center services in Western Europe. IDC ranked us as number four worldwide in application management when we weren't even on the boards some years ago. We were rated the best managed outsourcing provider by the Black Book of Outsourcing compiled by the Brown Wilson Group, and we ranked number one on VarBusiness Magazine's list of value-added resellers.

And finally, people which make up the core of what we do. We spent time developing a new account management training program. It's built around a case study, MBA-type program. It paints what we think are our best account management people. We train them on a general management track, learning how to ensure that they understand how to lead a business, not just how to do IT outsourcing, so focus around financials, negotiating, how deals are done, how to continue to drive business, different selling skills, etc. We've recruited new talent – I'll talk about that shortly – to ensure that changes are needed and turnover is managed versus just happening to us.

When you look at the year, I mentioned sales effectiveness as an improved area for us. It really is a critical set of measures from both growth and cost. It's important for us to understand whether we have command of the sales process and whether we're doing so in an efficient manner.

We view that first by this graph, our annualized contract value, shown here. It has increased steadily over the past several years. Now, we've excluded the large, super-mega renewals with GM and NMCI for this graphic to reflect what we consider to be our true core trend, because a true core trend is what really sustains the company. And as you've seen in the industry, deal term is shrinking, but we only saw this impact show up in 2007 when it dipped under five years for the first time. Our apps growth is clearly in shorter term project-based activities which will impact deal term in total, and we're monitoring that to ensure we're on top of the metric, but we don't see any cause for alarm, because equally important is deal volume. In our case, our volume of deals signed increased by 6%. So term may be down but volume is up. It also reflects that applications issue that I just spoke about and it does begin to change the fabric of how we monitor things. And finally, we ended the year with our pipeline up 10%, and in both cases, over the $100 million deal category, as well as under the $100 million deal category. So we believe that this gives you a reasonable picture top line of how we looked at the year and what we thought about our business from an activity standpoint.

Let's talk about the momentum overall. Our results in 2007 in sales continue the momentum. The spikes we had in 2005 with the big Ministry of Defence win, the MoD win, followed by GM and NMCI recompetes in '06, tend to distort the fact that the core business is moving very well. In looking at our sales production, we had an increased trend of sales production overall and we think that graph speaks well to it. When you look at our compounded annual growth from a core standpoint, you can see that it is a 12% underlying growth rate which we think is very positive. And again in 2007, we signed some critical marquee wins with anchor clients in retail and in pharmaceutical, both with Arcandor in Germany, which was a significant win for us, and then by Bristol-Myers Squibb which we announced at the end of the year which is a very big win.

So let's look at financial metrics. When we look at the foundation of the company, we have made some pretty sound progress, we believe: adjusted EPS from a negative 34 cents to a $1.56; adjusted operating margin from 0.3% to 5.8%. RONA has steadily improved, up 8%, and free cash flow, we hit $892, approximately $900 million. We hit $892; we didn't hit the 900; we understand that. That is something that as I look at it, was more of our own forecasting error. But having said that, we did hit $892, so it is what it is, but when I look at that number, it's made up of much more solid operating cash flow than ever before. So the amount of asset sales, those types of things, we have parked all that. We are now focusing on true operating cash flow.

What's interesting is our share price is the same as it was in 2004, so when I look at those financial metrics, I think it's important to understand where we're trading at relative to the strength of the company. And today's objective that we've come in with is to ensure that you at least – that we have provided you with the clarity on our business plan and our investment thesis so that you understand where we're going and you're comfortable with that at the end.

Before I move into '08, I wanted to talk about a couple things that seemed to come out of the fourth-quarter earnings call to make sure that they weren't misunderstood. One of the critiques was weak bookings for the quarter. In actual fact, we booked $6.1 billion of business in that quarter, a $24 billion run rate. I think it was a great quarter. Our guidance was high, no question, and actually some deals did slip into Q1. Those deals we were down-selected to one; we just couldn't get them contracted in time. And there's a variety of reasons for that but it doesn't matter; they did slip, but it was still a darn good quarter at $6.1 billion, so I just think we ought to be clear about that. When you look at the second half, our bookings were again greater than one book-to-bill ratio and we think it was very solid both in deal mix and quality.

The other comment we picked up was contract execution issues. That may be a comment I made in passing, but I want to be very clear about this. When we look at our business last year, we have no contract execution issues in the terms that they seem to be picked up on. Every company when they have a variety of startups have some issues that are just normal execution problems. We had some in the fourth quarter, there's no question, but they are not a pattern. They are not due to the contract being bad. They are not due to anything more than what I consider to be local people-type issues or, in some cases, even client issues that you go through in a normal operating situation. It just ties to the number of deals we were doing at one time. But on balance, there are no major problems, there are no serious contract problems, there are no patterns and none that would warrant any specific mention, period.

I think the other thing, when it comes to operating margin that we have to be frank about, and I thought we talked about this, but I want to reemphasize it, is we did have a slower start to '07 in deals. Everybody knows that. The first half was not as strong, so that shows up somewhat at the back end of the year, and that helped contribute to the margin delta slightly, and we also had the additional investment in applications as we ramped it up. So I just thought it was important to clear those points up and to make sure that I was very frank about the statement that we're on solid ground and that I didn't want those comments to be taken out of context when you're on a phone call. And I'm sure there will be some questions about that and I'm sure we'll be happy to answer them.

Let me talk a little bit about our franchise. I just wanted to get that other thing off the table. So let's start looking at '08. First, I wanted to talk about the franchise because this is what the rest of the day is built on. Our capabilities are world class. You know, we founded this industry 45 years ago. We're in 66 countries. We're a long-time leader in ITO services with size and scale and we're proud of that. And our ITO offerings are a complete solution and a complete set of capabilities that can either satisfy an entire need or a portion of any need. Kevin is going to speak to that.

We've made significant improvements in quality. In '07, we made significant improvements in sev-1 and sev-2 outages, which you've heard mentioned and these guys will mention again. We believe that is a differentiator for us and we believe that our clients respond to that very, very well and see that difference. It helps us in recompetes and it helped us in referenceability. We have an end-to-end, integrated value proposition and our application business is quite big. We're approaching, as I said, $7 billion which is actually more apps business than the top Indian competitor.

Our culture has been legendary and we're keeping that proud tradition. The brand stands for delivering on our commitments so our clients can deliver on theirs. We do live that creed every single day with no compromise. And you know what? It helps us win deals and it helps us get clients invested with us. Our service-oriented culture is not biased by product. That lends us to be much more of a client-service business, and when it comes to complexity on a global basis, not very many can compete with us, and our employee base is very deep and very broad.

We're proud of our client base of blue-chip companies. We have 20% of the Global Fortune 500, 20% of the US Fortune 1,000. And remember, while most of our business is from longer term, large contracts, we're also growing project services now. Finally, the client base is very broad. And financially, our balance sheet is very strong and we continue to enjoy the rate of approximately $1 billion of free cash flow while restructuring the company.

So going forward into 2008, what is our focus? Margin expansion opportunities, number one. We're committed to realizing that expansion by how we change the way we operate and deliver while achieving a higher quality base. Secondly, we're committed to generating a return on invested capital greater than our cost of capital. We've made this part of every deal analysis we complete and we've made it part of our ongoing daily dialogue. We're continuing to make changes to our global delivery system to ensure it is truly seamless, efficient and has the standards that are the same in all locations across the globe. That helps us first with quality, helps us with cost, most of all it helps us with success of startups. And finally, we will be focused on expanding successfully our large and experienced apps maintenance and ITO businesses as we move into more project services. This will include domain-based practices such as SAP and Oracle and IT services that will now include as an offering our suite of security offerings which are pretty extensive.

Let's take a minute and talk about the macroeconomic assessment. When we talked on the phone and people asked us our concerns and we tried to answer them efficiently, I think it raises some question, are we really paying attention to this? I thought I should take a minute and tell you how we approach this. We take this very seriously and we have a very detailed process to gather and understand the conditions and forward views across the globe. I and other members of my senior staff have engaged with chief economists at the global banks both in the US and outside the US. We actually have conference calls with them to talk about their view of the economy and, as you can imagine, not all their views are the same but it does give us different points to go research. We also talk to government officials, both in the Fed and outside the Fed, and we talk to other economists at respected institutions such as the Conference Board. Last week I was with the Business Council and met with the chief economist at the Conference Board. So we try to gather all this data together and analyze that and funnel that through our organization to have it checked, but we try to do that to discuss and reveal all the issues to make sure we have a pretty good picture of what's going on.

There clearly is general consensus that there is a slowdown. There is a recessionary bias in the US, but the reality is people talk more about a slowdown. There is less concern in Europe and even less in Asia Pacific, but we do consider every one of these comments as we determine investments and capital spending. The question is how is a possible that a US or UK recession, how will it impact our business and whether it's localized or it spreads globally?

You know, we run core IT services, mission-critical systems and networks. Our apps business is maintaining the core legacy applications that run our clients' businesses. This is not the first kind of IT work that is cut in a recession, and we find this work gets more attention when the economy tightens as the client seeks ways to improve operating efficiency.

Secondly, what do we do about our clients? We spend a lot of time looking at their creditworthiness. The overall credit quality of our client base is very strong. Seventy-six percent of our clients are investment grade. No client is less than a BB+ within the other 24%. We are continuing an ongoing credit profile of our top 100 to 150 clients to monitor status, looking for any signals that should cause us to behave differently. And as a matter of interest, even in bankruptcy situations, core IT services get court protection to ensure the enterprise still operates, payments continue to be made. So we feel that we're in a very unique position in this time and we're going to take advantage of it. Approximately 75% of our revenue comes out of our contracting backlog which is a very high, secure reoccurring revenue level, and from a diversification standpoint, half of our business is outside the US and 30% comes from government entities.

In summary, we continue to pay close attention to the economic cycle and we adjust accordingly. In a pullback, we believe our exposure to client cutbacks or delays is minimized, and we believe we're in a reasonably strong position because we're never sure of what's going to happen. And since IT provides solutions help run operations more efficiently, we believe that puts us in a rather unique position in our ability to deal with just legacy support further underscores that. Of course, we can't predict the economy, but having said that, we believe we can mold ourselves to be prepared for those types of actions.

Let's talk about 2008. It's a year where we'll continue to reflect some of the impact of making transformational changes as we run the business. Realignment of our workforce and the impact of Best Shore pricing are part of the change, so as a result we expect revenue growth to be approximately 2%. Operating profit will be down due to our ramp-up of workforce changes, but up once before that impact compared to '07, and free cash flow will be approximately $900 million. As you know, we won't have the Verizon contract contribution, so Ron Vargo is going to speak to the offsetting impact that's going to help us achieve that cash flow. I view '08 as a year where the hard work we're putting in enables us to have a much better breakout-type year in 2009.

So let's talk a bit about our vision and strategic intent. We've updated and tuned our strategy from last year. Joe Eazor will speak to that in more detail. It is grounded fundamentally in operations and doing what we do best. In addition, each service line has specific goals, and you'll hear that from Kevin Torgerson and Charlie Feld. And our strategy is execution oriented, and our three regional leaders – Jeff Kelly for the Americas, Bill Thomas for EMEA and Michael Coomer for Asia Pacific – will talk about how they will deliver on this strategy in the field. Part of the execution is having the right team get the job done, and performance management in our company has now become a routine part of how we manage the company. We've retained 94% of our top-rated employees. We've released 50 executives in the last nine months or so for performance reasons. We strengthened the team by hiring 54 new executives of which 32% have been for applications and 29% have been for sales. Our go-to-market improvements will be touched on by Joe as well as the regional leaders since that's where we're going to be improving our sales activities and strengthening our sales teams.

So overall, this whole thing is built around a strategy focused on revenue and cost objectives and we will continue to pursue acquisitions. M&A is a vital part of our business, but M&A is a strategy to support the company, it is not the strategy of the company. So we are not a company that looks at M&A as our single strategy. We are a company that uses M&A as part of our strategy, as one of the tools.

Ron Vargo will present the financial plan because, in the end, results do matter to us, and it's something that we understand, and that's a tag line that we talk to with every one of our people about, whether it was at the Sales Conference this year or whether it's in our daily conversations. We are committed, this team, to generating shareholder value. So with that, I'm going to turn it over to Joe Eazor to start with the strategy piece and thank you.

[END]