

DEFAULT MODEL ASSUMPTIONS

1. HEWLETT PACKARD

a. SALES

- i. TOP LINE SALES SPLIT BETWEEN ESTIMATED INK & TONER SALES AND ALL OTHER
- ii. TTM SALES DECREASE APPLIED TO ALL OTHER – I.E. $\$38.2B \times .9554 = \$36.5B$
- iii. MARKET SHRINK, MARKET SHARE LOSS & PRICE COMPRESSION LOSS APPLIED TO INK AND TONER CARTRIDGE SALES – I.E. $\$10B \times .95 \times .9 \times .9 = \$7.695 =$ SALES REVENUE LOSS OF \$2.3B
- iv. PRO-FORMA TOP LINE = \$44.2B

b. COST OF GOODS SOLD

- i. COGS (EXCL. D&A) SPLIT BETWEEN “ALL OTHER” & INK & TONER
- ii. ASSUMED COGS % ON INK & TONER CARTRIDGES = 10%
- iii. BASED ON TTM GP OF 18.76% & INK & TONER = 90% THEN GP ON “ALL OTHER” = 1%
- iv. COGS ON “ALL OTHER” = \$37.8B AND ON INK & TONER = \$1B
- v. PROJECTD SALES LOSS ($\$1.7B \times$ COGS [99%] A 70% [VARIABLE COST] = $\$1.8B =$ COGS REDUCTION BASED ON VOLUME
- vi. COGS ON INK & TONER = SALES MINUS VOLUME DUE TO MARKET SHRINK (5%) X VOLUME DUE TO MARKET SHARE (10%) X COGS (10%) X .7 (VARIABLE COST) = \$102M
- vii. PRICE COMPRESSION LOSS DOES NOT AFFECT COGS – ONLY GP
- viii. ADJUSTED INK & TONER COGS DUE TO MARKET SHRINK & MARKET SHARE = \$899M
- ix. PF TOTAL COGS = \$37.558B

c. GROSS PROFIT

- i. REDUCED FROM 18.76% TO 14.29%

d. SG&A EXPENSE

- i. TTM SG&A EXPENSE X PRO-RATA SALES LOSS ($\$44.2B / \$48.2B = .917$) = \$500M X 50% = \$250M
- ii. ASSUMES SG&A WILL BE ELIMINATED AT 50% OF THE RATE OF LOSS IN SALES DUE TO REACTION TIME & FIXED SG&A EXPENSES

2. STAPLES & OFFICE DEPOT

a. SALES

- i. SAME LOGIC AS HEWLETT PACKARD

b. COGS

- i. SAME LOGIC AS HEWLETT PACKARD EXCEPT GP ON OEM INK AND TONER = 12.5% NOT 90%

c. SG&A

- i. SAME LOGIC AS HEWLETT PACKARD