Hewlett Packard Enterprise

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Mr. TIM STONESIFER: Good afternoon, everybody. My name is Tim Stonesifer and I'm pleased to be here in my new role as the CFO of Hewlett Packard Enterprise. Since I haven't met many of you yet I thought I'd start out with a quick introduction before we jump into the presentation. So, I started my career at General Electric. I spent about 20 years there and a variety of finance roles across the world and then after GE I spent several years at General Motors where I was the CFO of their international operations based in Shanghai, China. Then at the beginning of 2014 I was fortunate enough to come to HP as the CFO of the Enterprise Group and when you think about it EG is a great place to start and get in with all the action with all the other business units to really get good exposure to what is now Hewlett Packard Enterprise. So, I'm excited about where we are and I'm excited about the future ahead of us.

So, you've heard from my colleagues how we plan to win where we play and I hope it gives you confidence in the resulting financial opportunity that lies ahead of us and today I'm going to focus specifically on that opportunity and why we think Hewlett Packard Enterprise is a good investment. First, the markets we're focused on are large and they're growing. Second, our revenue and profits are well diversified given the broad portfolio we have across hardware, software, and services, combined with a global customer base. Across each of our segments, EG, ES Software and Financial Services, we have recurring revenue streams that collectively drive strong consistent cash flows. With that cash flow in mind we've created a capital structure that gives us the flexibility to both invest in the business and return cash to shareholders. At the same time we will maintain a disciplined return on investment based approach to drive those capital allocation decisions.

So as you've heard throughout the day our strategies focus on the four most pressing challenges our customers are facing. These transformation areas provide a market opportunity of about a trillion dollars growing at about a 4% CAGR. So let me break these down a little bit more. We think the largest opportunity is in the customer's desire for a hybrid infrastructure. Overall it presents a market opportunity of over 500 billion dollars. We can facilitate this journey with solutions from across our portfolio including hardware, software, and services. Now the second largest space is in increasing workplace productivity which we think is about a 250 billion dollar market opportunity for HPE. Solutions such as the Aruba wireless network product along with application delivery management will help customers maximize their spending and improve their productivity. Then the explosion in data and the ability to turn that data into information has created about a 150 billion dollar market opportunity. Now we can provide the hardware to store and process that data and then the software and services to enable the customer to perform the analytics to help drive better business outcomes. And finally as enterprises are placing more of their digital assets in the Cloud, security has become a top concern and some would argue that it's the one line item in a CIO's budget that isn't constrained. So we think our security services and software solutions are very competitive in this 100 billion dollar market. So we are very well positioned to help our customers address these challenges given our global scale, our deep portfolio, and our industry expertise.

So this view demonstrates how our revenue and profit base is truly diversified across industry verticals, geographies, and products. We're a global company operating in about 120 countries and about 60% of our revenue is from outside the U.S. This breath is an important advantage since it makes us only one of only a handful of companies with the breath and scope to support large multinational organizations. Now of course as you've seen this year it also exposes us to currency movements around the world and I'll touch on that a little bit later in the presentation.

So when you break the revenue up by segment approximately 50% of our revenue and 70% of our profit comes from the Enterprise Group across Servers, Networking, Storage, and Technology Services. Enterprise Services generates about 30% of our revenue and 17% of our profit. As Mike talked about earlier we play in multiple geographies and markets verticals. Our services range from IT outsourcing to business process outsourcing, applications, and strategic enterprise services such as Cloud and security management. Software delivers about 7% of our revenue and 14% of our profit and then finally 6% of our revenue and 6% of our profit is from our Financial Services business which is critical for providing customers with the financial flexibility to accelerate their IT journey.

So overall our diversity portfolio helps us fulfil customer needs, and optimize a broad variety of opportunities without being too exposed to any one particular market or industry trend.

So in addition to a diversified revenue base we also have strong recurring and secure revenue streams across each of our business segments that support financial stability and generate consistent cash flow. So for example, in Software, approximately 50% of our revenue is from ongoing support. What this means is that we sign long term contracts with our customers and then we recognize that over a specified period of time. Our professional services and SaaS businesses also has a significant recurring component that brings further stability. We have a similar situation in Enterprise Services where the business contractually secures revenue streams well in advanced of booking the revenue, providing good visibility into future periods. So for example over 70% of the expected revenue in fiscal year ’16 should be locked at the beginning of the year. And then within the Enterprise Group, Technology Services, about 85% of our Technology Services segment is from recurring support revenue. About 50% of that is secured at the beginning of the fiscal year. Then finally approximately 95% of our Financial Services business is annuity based and we’re generally 60% secured at the beginning of each fiscal year.

So now let’s turn to the capital structure. As I mentioned earlier we focus on maintaining a solid investment grade rating that the rating agencies have recently confirmed. Our strong balance sheet will provide us the ability to make investments in the business and return cash to shareholders. As reported in our form 10 filing we expect at the time of the separation to have a gross cash balance of 11.5 billion dollars and gross debt of 16 billion dollars with a strong liquidity profile.

You know I think it’s also important to separate the operating company cash and debt balances from those required to operate our Financial Services business. So similar to the past we expect to hold approximately 1 billion dollars in cash and 11 billion dollars of debt in order to operate our financial services business, with all that debt being supported by high quality financing receivables. So when you strip out the financing business and the financing portfolio, the operating company will have a net cash position of approximately 5.5 billion dollars.

So looking forward we're maintaining the same capital allocation framework we used as a combined company. Our main objective remains to source and deploy the capital that we generate to the highest risk adjusted return for our shareholders. In this environment of rapid technological and economic change we need to be able to invest capital at the right place and at the right time. Next, we need to fund our ongoing spending like dividend payments and base line capex to run the business and meet our capital obligations. Then finally we will allocate excess cash to investments based on the highest economic opportunities. By definition a returns based framework means that we'll evaluate all opportunities against one another to maximize value. Since the input variables continuously move, giving specific rules around how exactly we'll allocate that capital over the long term just doesn't make sense.

Now having said that we want you to understand how we see fiscal year '16 given the line of sight that we have today. So here are our priorities for 2016. We're going to execute a disciplined ROI based capital allocation approach that covers three areas. The first priority is to invest in growth areas with attractive returns. We believe our future growth is dependent on our innovation pipeline and launching great products and services. Our preferred strategy is organic investment through key areas in our portfolio that better serve our customers when maximizing opportunity in those four transformation areas. So we expect R&D to grow as a percent of revenue. Of course we'll also consider inorganic investment through strategic partnerships or our ventures program. We will consider M&A in the right circumstances. So strategic partnerships and investments and ventures offers a great opportunity to better understand what's going on in the market place, test technology, and see if that technology scales. And it's also a great way to bring solutions to our customers with a lower upfront investment versus an outright acquisition. So our partnership with Hortonworks is a good example of how we can bring their big data platform to our customers. Just last week we announced an investment Chef, a high profile dev ops start up, so these are investments all supporting new technology development and ultimately bringing solutions to our customers. Now for M&A we'll continue to take a discipline approach and consider acquisitions that either drive profitable growth, improve our product portfolio, or leverage our broad distribution network to accelerate the strategy. I think the Aruba acquisition is a great example of combining complementary product portfolios and then we can leverage our broad distribution network to accelerate growth, profitable growth, in the networking space.

So our second priority in 2016 is a biased toward share repurchases. Then finally dividends will remain an important part of our capital allocation strategy. So given all that we expect to return at least 50% of our free cash flow to shareholders in the form of approximately 400 million dollars in dividends and the remainder in share repurchases.

So before we turn to the forecast I want to give you an update on the restructuring activities. So over the past several months we've developed a clear plan to drive more cost reductions, both associated with separation and specific to the Enterprise Services business. First as we work through the creation of a more efficient and accountable organization we uncovered opportunities for an additional 700 million dollars of ongoing cost reductions in Hewlett Packard Enterprise. These include real estate site shutdowns, and reductions in other parts of the portfolio. Then in addition and as we've said before we need to take up to 2 billion dollars of gross annualized costs out of our Enterprise services business to reduce the risk to longer return sustainability of a 7-9% profit margin. So to achieve these savings we expect 25,000-30,000 people to leave the company primarily associated with the Enterprise Services transformation. We do expect some new hires to offset some of this as we reshape the work force including changes in location, site density, and the overall shape of the organization. So these actions will eliminate the need for any future corporate restructuring. So in total we expect to take approximately 2.7 billion dollars in annual costs out of the business. That's going to result in a gap charge of 2.7 billion dollars, some of which will occur in the 4th quarter of 2015. The cash impact will be approximately 2.6 billion dollars over the next three years beginning in the fiscal year ’16.

So now let’s turn to the outlook. So looking forward, from a macro perspective we expect the current environment to continue, with market pressure offset by solid IT spending associated with the move to the Cloud and associated with security, mobility, and big data market trends. We also expect some certain geopolitical challenges to continue in areas like Russia and China.

Now with this backdrop we expect fiscal year ’16 revenue to grow year over year in constant currency driven by continued strength in Servers, Networking, and Storage, and stabilization in Services and Software. Now as you know currency has been a significant head wind in fiscal year ’15 so we currently anticipate currency to be 3 point headwind in fiscal year ’16. Now as we’ve done in the past four year we’re going to continue to focus our costs across the entire organization. We’re going to continue to focus on supply chain productivity, maintain a disciplined approach on discretionary spend, and reshape the workforce. So with these efforts with expect operating profit dollars to grow year over year in fiscal year ’16.

With OI&E of 300 million dollars, a tax rate of approximately 22-24%, and a flat share count we forecast non-GAAP EPS to $1.85-1.95. Now this does not include the impact of the H3C divestiture expected to occur by the end of the calendar year. Our GAAP EPS forecast of $.75-.85 includes charges of 2.5 billion dollars which primarily include restructuring related charges of 1.5 billion dollars, 800 million dollars of amortization of intangible assets and separation costs of 300 million dollars. So as we’ve done in the past we think it’s appropriate to provide outlook specifically for ES given the criticality to the overall turnaround journey. So we expect ES revenue to be flat to down 2% year over year in constant currency. Now having said that, with the ongoing cost reductions and operational improvements we do expect margins to further improve and end up in the range of 6-7% in fiscal year ’16.

So let me quickly provide the walk on non-GAP EPS which shows how we get from the midpoint of the fiscal year ’15 outlook to the midpoint of the fiscal year ’16 outlook. So first this fiscal year ’15 EPS range reflects the estimated Hewlett

Packard Enterprise contribution to the overall combined company EPS for fiscal year ’15. It also reflects the $.03 move from our marketing optimization business, from the Software business, to HP Inc.

So for fiscal year ’16 we expect currency to be significant headwind for a couple reasons. First, we assume current rates to hold flat through fiscal year ’16. Now when you compare that with the year over year basis and compare that with the average rates of fiscal year ’15 we still have unfavorable compares due to the large movements in the first half of ’15. Then the second reason is we had significant hedging gains in fiscal year ’15 that have largely rolled off and we don’t expect to have that same benefit in fiscal year ’16 as our hedges are put on at current spot rates. From a volume price mix perspective we do expect solid revenue contributions from Aruba as well as the rest of the EG portfolio and that will be offset by some pressure on the ES business. The continued focus on the cost base across the company and the ES transformation that Mike eluded to earlier will delivery significant margin expansion. As previously discussed we do expect a negative impact from dis-synergies associated with the separation. Then there are a couple other negative impacts – we’re going to have higher interest expense primarily due to the increased debt levels associated with the Aruba acquisition and then a slightly elevated tax rate.

So turning to cash flow, this fiscal year ’15 cash flow reflects the Hewlett Packard Enterprise contributions to the combined company cash flow forecast for fiscal year ’15. We’re modeling between 5-5.2 billion dollars in cash flow from operations in fiscal year ’16. We do expect capital expenditures to be approximately 3 billion dollars and keep in mind two thirds of that is revenue generating to support the operating lease activity in our financial services business, as well as the enterprise services contract. So that leads you to a free cash flow of approximately $2-2.2 billion. So at the bottom of the page we’ve also highlighted the cash charges related to the separation and the restructuring plan to help provide some more clarity. So we expect separation cash payments to be approximately $400 million and the restructuring impact to cash flow will be approximately $1.2 billion. So when you take these two items into account you can get a better indication of a more normalized cash flow level that's expected to be approximately $3.7 billion in 2016. Very similar to what we saw in 2015.

So as you look into the future our strategies for HPE to be a technology leader and a critical partner to our customers with a solutions lead portfolio and a strong innovation road map. We also believe our financial strength is foundational to the business strategy. We expect EPS to grow faster than revenue and will maintain a disciplined ROI based capital allocation strategy. Given that we expect to be a long term global GDP like growth company and we expect that growth to come from our higher margin business and we'll also continue to take cost out so we should see some margin expansion over time. As we've discussed we expect our free cash flow is going to trend with our non-GAP earning. Then finally we remain committed to a disciplined capital allocation strategy.

So in wrapping this up I'd like to end where I started. You know we play in large markets that are growing and we will return to growth and constant currency. We have a diversified portfolio with a broad global footprint. Our mix of recurring revenue streams drives strong and consistent cash flows and we've built a capital structure that provides flexibility both to invest in the business and return cash to shareholders. And finally we'll continue to execute a disciplined capital allocation framework that is ROI based and drives shareholder value. So with that if the others will join me up on stage we'll entertain your questions.

MEG WHITMAN: So Kurt, are you the MC?

KURT KARROS: I am here. So, great. We can start with questions. Andy I think, Kulbinder.

KULBINDER GARCHA: Kulbinder from Credit Swiss. Maybe just a couple of very quick questions… On the long term TAM I heard a lot in the presentations about this 4% revenue growth rate. It doesn't quite feel like you're comfortable endorsing that for next year at this stage but is that how you want to be judged, Meg, that this should be a 4% revenue growth company, within short order is that something we see in '17? And then the other question is that I have to ask on M&A. Most of your investors are just scared you're going to go and do a big deal and so with the capital allocation framework you've got out there can we get some idea of deal sizes in an industry that you keep referencing that should consolidate? So I'm just wondering on deal sizes and M&A how you see it. Thanks.

MEG WHITMAN: Sure. So let me answer the first question. I think over the longer term this should be, we should be able to grow at market growth rates and so if that's 4-5% we should be able to grow at that over the long term. But in the next couple of years, the reason we said GDP like grower is because we still have an exposure in China, in Russia, in Brazil, in other areas that are pockets of macro instability in our overall portfolio. We have a very big Russian business for example. The other thing is, particularly in Roberts area, we've got some of the Software businesses that he called 'margin optimized' that are actually declining and you saw his growth businesses were about 36% next year…we'd love to see that be at 50% just like we saw in Storage that finally, you know the new 3Par was actually now greater than 50% of our overall Storage business. So you know we still have some business that are doing a bit of this but I think you're right over the long haul we should grow 4-5%.

From an acquisition perspective I think we have demonstrated over the last four years that we are disciplined and thoughtful and I think Tim really said it very well. So first choice for growth is organic investment. I will tell you that one of the great strengths of this company is our R&D capability. $1 invested in R&D is actually one of the best investments that we can make. Whether it's all flash storage array, whether it's HP OneView, whether it's some of the new strategic financial services. So organic is our number one priority. I think a change over the last year to 18 months is our willingness to partner with companies. I'll take security for example. There is a new security company that is being started in Silicon Valley at least once a week. We cannot possibly, even if we wanted to, buy all those security companies. And so this notion of being able to curate Silicon Valley for our customer base in the context of protect, is really attractive to us. We can make a small investment through HP Ventures. Maybe we take a seat on the board and then they become part of our solution offering but if another company comes along that's better, more advanced, then we can swap in and out. The speed at which this market is changing, our view as partnering is actually a really good strategy for us.

Now some people may say, but Meg if you partner with a company with HP's go to market heft an overall weight in the market place you may end up making some of these companies, you won't own them. Yea that's right, but if we do a really good job on these four transformation areas we're going to drag a lot of services, a lot of support, a lot of software, and a lot of hardware. So this partnering strategy is very much a real part of our strategy. Then as Tim said from an acquisition perspective, listen, we totally understand our role as a company. I said to someone the other day, "I am not confused about the company that I run. It's not EBay, I got that." So what we want to do is actually make acquisitions that are, Aruba is a perfect case and point. A complimentary product, with tailwinds in the enterprise, the 802.11AC change in the market place is wind at the back for Aruba. It ignited our core switching and routing offerings, and by the way we got a great management team, as you know Dom Orr is actually running now all of HP networking reporting to Antonio and we're super pleased with that acquisition. So that's the kind of thing that we want to do. And again I would just look to the past. We haven't done anything stupid in the last four years. I hope you would agree, and we don't indent to do something stupid in the future. So thank you for the question.

KURT Karros: Katie…

KATIE HUBERTY: Thank you. Katie Huberty Morgan Stanley. You talked a lot about a lot of constructive stabilization and stable margins in the individual businesses but I guess I still struggle a bit as to what part of the strategy is either incremental, new, or accelerating because of the separation. I wonder if you could just talk about some of the initiatives that maybe wouldn't exist if you were still running the company as a whole next year. And then just a follow up for Tim on cash cycle, can you talk about what that looks like for the enterprise business and what the free cash flow guidance assumes as it relates to any change in the cash cycle in fiscal '16.

MEG WHITMAN: Yeah. So I'll answer two questions which I thought were embedded in your first question. So if you think about the role of each of the businesses here, the role of enterprise group is growth and margin expansion. The role of Mike's business is to stabilize revenue and expand margin and then Roberts business is actually return to growth and expand margin. It's a smaller part of the overall operating income of the company so we can't make as big of a change, but that's the overall financial architecture that we have in mind which is why you see our forecast for GDP like growth rates and then 10-11% long term operating margin.

With regard to what is different, you almost have to be around HP to almost feel it and smell it, but these four transformation areas that we have locked on for Hewlett Packard Enterprise I'm not sure we would have gotten there if we were trying to incorporate PCs and printing into that vision because PCs and printing don't actually fall into those transformation areas. When we were one company we were always trying to fit all the pieces into an overall strategy. So I'd say that's number one. Number two is time and focus and I'll give you a perfect example. Last week we did our QBRs, our quarterly business reviews, and for the first time I did not do the printing and PC business, Dion did. We get to the end of three days where we dove deeply into these three business and I'm thinking wow I have two extra days here. Because I would have rolled right into PCs for a day and rolled into printing for a day. If you think about the organic investments we now have a smaller arena of investments that we're considering and you'll hear from Dion later this afternoon, but the ability to invest in printing in a way that we have not already invested in printing because of the demands of the company, I think is actually going to stand us in really good stead. So it's focus, it's innovation, and by the way it has a very interesting psychological measure because now the folks that are in HPE they see what they do and how it impacts the revenue, and how it impacts the operating profit. I mean Mike went from being basically 20% of the company—

MIKE: 37%.

MEG: --to almost half. 37% of the company. Folks in enterprise they understand their role in the context of the transformation area and they feel like they are a whole lot more important in terms of the future of the company. So, I remain incredibly convinced that this was the right thing to do. I'm more convinced today than I was when we announced on October 6th because I feel it every single day in the discipline and the focus that we can bring to these businesses.

TIM: And then on the cash conversion you'll see in the form 10 today that we were at 30 days, that's a little big inflated because of some business continuity actions that we had in place when we did the August 1st cut over so I think you should expect similar to how we ended fiscal year '14. Somewhere in that range.

KURT: Great. Over here, Jason.

WAMSI MOHAN: Thank you. Thank you. Wamsi Mohan Bank of America, Meryl Lynch. I was wondering if you could comment on two things. Firstly, we've obviously not heard from HP Inc. yet in terms of their free cash flow profile but should we be exp--when do you expect that the--is it two, three years out that you would expect the combined free cash flow of HP Inc. and HP Enterprise to actually exceed that had you been running HP stand alone? And my second question is can you talk about the level of dis-synergy if the entirety of it is captured and fiscal '16 or should we expect anything incremental post '16.

MEG: Let me take the first question and you can take the second question.

TIM: Alright.

MEG: So, you will see Hewlett Packard HP Inc.'s cash flow estimate for next year and then what you guys will need to do is to model the cash flow for '17 and '18 because we are not going to give cash flow guidance for either company for 17, 18, and 19. But if you take a look at the revenue statements we make about EPS you ought to be able to model that. Then you can draw your own conclusions. You will recall that one of the things we said was that if you look at the dividend policy and you look at the share repurchase policy, the dividends of the combined company would equal the dividends of HPQ today that is still true and you'll see that in their dividend strategy as well as ours.

TIM: And then on the dis-synergies the assumption we had is that between the two companies there were $400-450 million of dis-synergies half of which would be covered in '16 and the remainder would be covered in '17.

KURT: Up front here.

AMIT DARYANANI: Thanks, Amit Daryanani RBC Capital. I guess two questions. One on the 2.7 billion cost cut initiative you guys have…could you talk about how do we think about the net savings that you would get? Because that seems to be a gross number. And what's the time line to realize those savings? In year one and year two. And then secondly on the services side it seems like a lot of this cost initiative is on the ITO side and I'm curious if you guys have done an analyst of sell or shut it down versus fix it? Because it seems to be a very expensive way to fix ITO to get to 7-9% margins for that revenue stream at least.

MEG: If you would take the first bit.

TIM: Okay as far as the net savings, the 2.7 gross there will be some of that coming back in because as Mike alluded to, when we're taking people as an example out of high cost countries and we'll be replacing them in low cost counties. So there will be some add back and there will be some other pressures around pricing pressures, there's also some FX in '16 as we talked about. So getting to a net number we'll sort of realize that probably in a '17 '18 type of frame.

MEG: And then let me answer sort of the big picture question for you and then I'll ask Mike to talk about what you're doing in apps and what you're doing in BPO because remember only about 1/3 of Mike's business is actually ITO the rest is apps as well as BPO. So listen we are really encouraged by the progress Enterprise services has made. It has been a bumpy road there's no question about it and it was bumpy in the time that predated me. We are conscious that there's been a number of restructuring charges that have been required of the business but I think we have the best plan, the most cogent plan, that also takes account of the shifts in the marketplace over the last two to three years. This has been a bit of a moving target. You might recall that I actually said there would be no more restructuring charges for HP. I bet some of you might have remembered that but always said we would do what was right for this company and the market has been moving. As you think about the requirements to offshore or best shore in the core business in Enterprise Services, I mean 3 or 4 years ago I never would have thought we would need to get to a 60% offshore mix if we're going to be competitive and have the automation and things that are required we have to get to that off shore mix. We have to fundamentally recreate the labor pyramid. Many of you heard me say our labor pyramid in Enterprise Services looks like a diamond and it needs to look like a triangle and quite frankly it needs to look like a quite flat triangle to be competitive.

So, while we need more restructuring I have the highest confidence I've had in the last four years about our ability to get there. And the other thing that is true is that Enterprise Services is essential to our solution led selling motion which I think is essential to the future of Hewlett Packard. We will not be the company we are today if five years from now we're still selling speeds and feeds. We need to be selling business outcomes and the two places we do that the best are in Enterprise Services and frankly in Technology Services in the Enterprise Group. You saw how that solution led selling motion actually made sense of our software business. You know Software has been kind of a bag of parts in many ways and now we have a framework by which software fits in. There's a role for every piece of software that we have and those that don't fit those four transformation areas will actually be divested. That has been incredibly clarifying and motivating, frankly, for the software business who felt like a bit of a red headed step child, perhaps. Now they don't feel like a red headed step child, they feel like central to what we're doing. So do you want to say a little bit about the consolidation things like that?

MIKE NEFKINS: So I'll talk a little bit about-what's really interesting in the Services space and what we're seeing is our customers don't buy ITO or apps on their own anymore. And this is really important concept. The transformation that we're making to our industrial delivery centers are to be able to sell into what our customers want. When they do an application migration you have to touch the app, you have to transform the app, and you have to move the app, you have to change the associated infrastructure that sits underneath it. So what we're doing is we're building these industrial delivery centers in the locations that I mentioned in Manila and Bangalore and Costa Rica etc. where we are bringing our apps and our infrastructure teams together and our business process services teams together as our customers buy these services, they are now integrated stacks. We're really excited about this because our competitors, not a single, our competitors, not even the Indian Pure Plays, when they sell an app now they have to go partner with ourselves, with some of the other hardware providers. So we're building a model now that is really going to help us provide our customers with what they want which is that fully integrated, think of it as a vertical stack from the business process to the app to the infrastructure. So when we talk about the restructuring dollars and what we're doing, we are retooling all these centers so all these teams are housed together and that we can provide those kinds of services. So we're actually not trying to catch up anymore, that's what we've been doing for the last two years, we are now going beyond that so that we can have these centers in a next generation manor that will help us win even more in the market.

KIRT KARROS: Great. Shannon.

SHANNON: Shannon Cross. Cross Research. We've talked about mergers and growth, I'm curious from sort of a divestiture stand point, I know Robert you talked about 17% of Software that you might look at doing something with, but I'm curious Meg overall when you look at the portfolio are there still areas where you'll still think you'll need to prune.

Meg: Yeah. So not in the big three businesses we're committed to being and obviously the infrastructure business, the software business, and the services business, and of course Cloud which knits together. But there are certain things within each of these businesses that we may choose to divest over time. And again this is all about focus and reducing complexity. This is one big complex company. It used to be a lot more complex so I actually feel like we're running something quite bite sized now. But if something doesn't fit these four transformation areas then we have to look really hard and say does it still make sense. Now, I'll give you the perfect example that Robert talked about. Marketing Optimization was making money. Did you say how much it was? You did. It was $.03. So in the old days at HP we would have said $.03/share we have to keep it because that's $75 million. Our new view is, actually, if it doesn't fit we need to get rid of it because it will simplify what we have to monitor, what we have to control, what we have to integrate, and what we have to sell. I think you'll see us do some more pruning of businesses that don't fit in terms of the focus that we're looking for going forward, but I will say we're committed to services, infrastructure, and software broadly.

KURT: Sherri.

SHERRI SCRIBNER: Thanks, I just wanted to – Sherri Scribner from Deutsche Bank, sorry. I just wanted to revisit the restructuring charges that you talked about today. The 2.7. I know you talked about the 2 billion before for the Enterprise Services but I'm just trying to bridge the gap between what we talked about in the past because that number seems a bit higher than what we heard before for fiscal '16. Then also I wanted to ask a question about the software business. You guys seem to have a lot of really great assets in the software business but your margins are pretty well below your competitors. Is there an opportunity to bring those margins higher and why are the margins lower? Thank you.

TIM: So on the restructuring charges, the $700 million is associated, we had said $1 billion with separation and the 700 is associated with the Hewlett Packard Enterprise for further cost reductions. Again, it will be things such as site closures and the reduction of those, further reductions in the workforce, across the broader portfolio.

ROBERT YOUNGJOHNS: Certainly, I mean we look at the software business every day in terms of margin improvements and I think we've got a good program in place to make sure we can achieve that where it's possible. I think you've got to be also clear that in order to be a growth business if you compare us with a fast growing software companies, many of them are not making significant margins. So it's a complex balancing act to make sure we're doing the right amount of innovation in the business because that's the thing that ultimately is going to fund the future growth.

MEG: I think the big step forward that Robert has led is to categorize those businesses into the three tiers that you saw. There's growth, a we are probably not going to expand margin in those businesses because they're going fast and we want to reinvest. Then there's foundation. Some of those we should be able to margin optimize. And then there is the Margin Optimize category. And frankly Robert has brought a lot of clarity to which of our businesses, because there's over 200 software products. Which fall into which area and they have to be managed differently. This is very difficult for big companies because no one necessarily wants to manage the margin optimize business but it's absolutely central to our long term financial architecture and allows us to create money that we can either bring to the bottom line or reinvest into the growth businesses. At least I think we have clarity on which businesses have the ability to margin optimize and that I think will you know grow over time as we learn more about the portfolio.

KURT: Here on the end, here.

ROD HALL: Yeah, hi, thanks, it’s Rod Hall with JP Morgan. I just wanted to ask quickly, back to the services business, I guess as we go through all of your lines of guidance the thing that looks most difficult to model is the turn in the services business, you know, the stabilization of growth there at the same time you’re taking a lot of heads out of that business and it sounds like you’re moving people overseas so pretty big execution challenge. I just wonder if you could talk to us a lot little is there anything you can give us in terms of color that would help us get confident with that stabilization? Are there trends underlying that maybe you haven’t talked about, within the revenue streams that would maybe help us understand how you stabilize that business overtime?

MEG: Mike, you want to take that?

MIKE: Yeah. So first off let me address the revenue question. So on revenue- our business, we really have to think between 60-80% of our business, the revenue is secured for the following years and we’ve done a really good job of taking customers that were kind of in the old world of outsourcing which was the traditional infrastructure outsourcing to the new world of next generation services. Unfortunately it’s one customer at a time and we’ve been busy with this. You know, deals are 3, 5, and 7 years so that’s why this process takes so long. It is one contract at a time. One mega contract at a time and we’re adding new contracts etc in. So we’ve got the best instrumentation we’ve ever had where we’re really able to build up that 60-80% in secured. We’ve obviously improved our new logo win rates and there’s an add on attached to the secured revenue we have so we are very confident with the buildup of our revenue. As you can see in the second half of this year the big three run off has mostly gone out and we’re down to a growth of -3% and we see that trend continuing. So we’re confident that by ’16 we’ll be between -2% and flat on the growth side.

Now looking at the execution, this is not something new for us. We've been executing now for two years. We've moved our cost base dramatically. Two years running we've improved our operating profit. Even more importantly we've moved our way of delivering services already into the next generation. So as I renew a contract, the old way we unravel that and sell into the new model which are these next generation delivery centers that we have, the new contracts: much easier to start up, much more stable, much more confident on no leakage in operating profit etc. So we've been doing that for two years now very successfully but it's only been one contract at a time and that's why it's going to take another good two years to get through that.

MEG: You know, another thing I would add for perspective and for those of you who were at SAM in September in 2012, I remarked on how the HP business overall was not as instrumented as I would have expected and that was particularly true in ES. I mean we couldn't look at customer profitability, we had no labor staffing IT systems, we couldn't look at utilization, and to the IT teams credit under John Hinshaw-we have invested significantly into the IT infrastructure not only for HP over all but particularly in services. With Mike's leadership and his CFO Joe Tautges we have this business instrumented better than I have ever seen in my four years here. Is there more work to do? Yes, but we actually know what's happening here and that gives me a lot of confidence that we can forecast the revenue and we can forecast the take out. So, good question, thanks.

KURT: Tony, here in the middle.

TONI SACCONAGHI: Yes, Toni Sacconaghi from Bernstein. Meg, I think I have one for you and then one for Tim or Mike. I wanted to revisit the question of long term growth. If we look at the enterprise portfolio, services isn't expected to grow for three years. TS is probably not going to grow. Software sounds like it's going to modest growth, so half your portfolio is not going to grow for the next few years. The remainder of the portfolio therefore has to grow at 6, 8, or 10% to deliver that 3-5% growth. By your own admission those addressable markets only grow at about 3% and so I guess the question is, is it realistic if we break it down that way, that HP can grow in that 3, 4, 5, I know you haven't put a specific number on it, rate on it over the next few years? Or is it, do you actually really expect some of those businesses where you've said are not likely to grow over the next couple of years to be meaningful contributors?

MEG: Yeah, sure. So a big step forward will be if, for example, enterprise services can stop shrinking. You know, as you think about what's happening to that business over the last four years we've lost about, what Mike, $4 billion of revenue. $4 billion in revenue, it's like think of this as a bathtub, we've got $4 billion going down the drain. Before you can grow you've actually got to fill the bathtub up to $4 billion. Just having ES flat to down slightly makes a big difference here. Then, Technology Services should actually grow. Antonio, bookings are growing at what, 3%?

ANTONIO: Right.

MEG: Bookings are a forward indicator and the third quarter bookings grew 3%. You saw what Antonio has done to the portfolio of Technology Services plus Technology Services consulting which will be leading the transformation areas below basically the fortune 100. So that ought to be a growth business for us as well. You've seen what's happening in Networking, Storage, and of course the server business. Now we don't think the server business is going to grow next year from a market perspective like it grew this year. This was quite extraordinary this year, but as you think about it, I think Tim was right that GDP like growth rates- now, what do you think the GDP is going to be? Is it going to be 3%, 4%, 2%, I think it matters some degree what happens with China, what happens with Russia and some of the other faster growing economies. Listen, we feel pretty confident that we've got line of sight to GDP like growth rates over the next couple of years and then we'll see where we are. Can we actually turn around the growth rates in ES. If we can turn that from flat to growing to 2-3%, obviously that changes the equation dramatically.

TIM: I just want to point out on the TS side of the house, if you go back to '14, '13, were orders have been declining, if you look at next year's revenue, I mean the current years revenue is based off of orders this year and last year so we're going into next year or should be going into next year with some order growth. Those two periods about 85% of the revenue base so that should be helpful.

MEG: I should underscore that we have to be talking, I think collectively, in terms of growth and constant currency, you know, I don't know what people in this room believe, but if there are some corners that believe the Euro to the Dollar exchange rate is going to be a parity - if that goes to parity then we have another set of issues here because 65% of our revenue is outside the U.S. and half of that is in Europe. We have a disproportionate exposure to the Euro. I think we have to really think about constant currency here because I don't know what's going to happen to exchange rates and for big American companies, we're not the only one. I mean this is a pretty significant effect. Just as you look at 2016 and you saw on Tim's walk, about $.24 or $.25/share or approximately $600 million of operating profit is going out of the P&L next year and we're doing more than making up for it in terms of productivity, but the foreign currency is frankly a wild card that, at current exchange rates, if it stays flat, that's the thing that you'll see.

TONI: Just on the follow up for Tim or for Mike. On Enterprise Services you're guiding for 6-7% operating margins next year but you actually really shouldn't have all that much of the benefit from the $2 billion cost cutting because it's spread over three years and when you let go of people go it often takes six months or nine months to get them out. So you're going to get to 6-7% operating margins if you hit your target next year without the benefit of that big cost cutting program. So I guess the question is why is your target for 7-9% either not more imminent or higher going forward? Are you modeling more structural pressures beyond that? Just given what you're guiding for next year and the timing of take outs likely being back end loaded next year in terms of its impact it feels like you should be able to deliver more if you take out all that cost.

MIKE: Yeah. So step one, I mean we're sticking to with the first part of this transformation which is getting to the 7-9%, so that's step number one. We're going to focus maniacally on that first. I think that the industry will go through more significant change over the next year or two in services and we need to see how that plays out especially now that we're bringing our services locations and centers together. So we're going to first focus on getting to the 7-9%. We're confident we can do that. Next year is going to be a big year for us as we get through the last of our contracts that are renewing this year and next year. So we're focusing first on that, Tony and then I think next year at SAM hopefully we'll have another good update for you on where we'll go beyond that.

KURT: We have time for one last question.

MEG: We should go to that side of the room. They didn't get a chance.

AARON RAKERS: Aaron Rakers at Stifel. Tony actually asked all my questions but I want to build on his question. So as you think about the Technology Services business and the aspiration of seeing that start to grow again, how do we think about the profitability profile of that EG group in total given that such a significant contribution comes from that Technology Services segment? And then also as a follow up I'd be curious- on the bridge of your free cash flow, how much is FX? Is it that $600 million that's embedding in that $2-2.2 billion free cash flow number for this business this year and that lifts effectively out of the model at some point? Or what is your assumption about FX around that free cash flow number?

TIM: So I'll answer the FX question first and that is the total impact that we anticipate in '16. As far as EG margins, when you think about it, you know Antonio showed a chart that had the rolling four quarter averages relatively consistent at 14-15%. You know, as you think forward and you think about the growth profile of the business, to Meg's point, you know, servers will continue to grow but it's not going to be as big as the overall growth as it was this year. We're going to start seeing more growth when you think about storage, what's going on with converge there. Right, 3rd quarter we we're over 50% and that's going to continue to climb. That will help margins. If you look at networking, Aruba will obviously be very helpful as we go forward and then all these productively initiatives that you also see in the waterfall and that we continue to work on whether it's supply chain, whether it's discretionary spend, whether it's reshaping the workforce, all of those will be helpful for margins as we go forward in the enterprise business.

MEG: I think you all know this, but the financial architecture of EG is--there's a chunk of it that is mixed space, right? Because storage and networking are higher margin products than servers so as the mix shifts to more networking and storage you actually should see margin expansion in that business depending on how fast our server business grows. Antonio, you might talk a little bit about what you're trying to do to make sure that we grow those two categories where we're now number two in the market, but still have a lot of runway left.

ANTONIO NERI: Sure. First of all, to answer the question with TS, we are growing this year in bookings versus the revenue being in decline so that's a very positive sign because we see the momentum now where our orders are growing faster than revenue and that should come in the years to come because that ultimately is a deferred revenue business. In terms of profitability we have implemented a lot of cost action to the business and we have done it a way that actually brings value to the customer. Better tools, more automation, skills that are aligned to the support the customers need. You will see next year that professional services consulting is going to grow as fast as support and the reason why is because we are helping with the transformation journeys. Every time we add a converged storage or networking it is actually super accretive to our technology services business. Now as I said earlier the way customers are going to consume technology is going to evolve. Convergence infrastructure in our workload optimize is going to continue to grow and customers need help in designing it, and implementing it, and in managing it. That's where technology services plays a huge role so roughly as 25-30% of the market goes to converged that's where technology services helps customers implement that new technology. Very excited about TS and I think you will see the momentum coming back on that business from the orders booking which will ultimately translate into revenue and profit.

MEG, TIM, MIKE, ANTONIO, KURT: Thank you very much for joining us. We appreciate it.

KURT: We'll be back at 3 o'clock for HP Inc.

[END RECORDING]