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IR Welcome

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MR.KURT KARROS: Well, good morning, everyone. Thank you for joining us this morning. Welcome to the 2015 Hewlett Packard Securities Analyst Meeting. Before we get started, I just wanted to go over what you should expect to see today.

In a few moments, Meg will be on stage and she will discuss the journey HP has been on and what the separation will enable Hewlett Packard Enterprise and HP Inc. to do. She'll then dive into the strategy, market focus, and priorities for Hewlett Packard Enterprise, and provide an overview of our cloud strategy. After that, we'll go over the different business units. Mike Nefkens will present Enterprise Servicers; Robert Youngjohns will cover Software; followed by Antonio Neri's presentation of the Enterprise Group. So that will take to about 12:20.

We'll break for lunch and reconvene here at about 1 o'clock for Tim Stonesifer, CFO, to cover our Financial Overview, and give guidance for 2016, and that will be followed by a Management Q&A Session.

After the Q&A, we'll have about an hour break and HP Inc. will start their meeting at 3 o'clock. Dion will give his CEO Overview, followed by the business units, the CFO Financial Overview, and Management Q&A. And then we should adjourn about 5:30, and on your way out there will be some light refreshments and appetizers.

As far as materials, you have the agenda in front of you. There's bios for the presenters in there already, as well as the Board of Directors. We'll publish each speaker's materials, other than Tim and Cathie's, as each begins their presentations. The CFO materials will be posted immediately following the financial presentations. All materials will be posted on HP's Investor Relations Web site at the link you see on the slide that you have in front of you.

Let me remind you that this meeting is being Web cast live. A replay will be available shortly afterwards, and will be available for approximately one year on our Investor Relations Web site.

And, now, let me read the disclaimers.

As always, elements of the following presentations are forward-looking and are based on our best view of the world and our businesses as we see them today. For more detailed information, please see the disclaimers on presentations related to forward-looking statements that involve risk, uncertainties, and assumptions. For a discussion of some of these risks, uncertainties and assumptions, please refer to HP's SEC reports, including its most recent Form 10Q, and Hewlett Packard Enterprise's Form 10, as amended, as filed with the SEC. We assume no obligation and do not intend to update any such forward-looking statements. We also note that the financial information discussed in this meeting reflects estimates based on information available at this time and could differ materially from what's ultimately reported in HP's annual report on Form 10K and the fiscal year ended October 31st, 2015. For financial information that has been expressed on a non-GAAP basis, we have included reconciliations to the comparable GAAP information.

Finally, some of the historical financial results in today's presentations are based on accounting rules that are slightly different from what we will use as stand-alone companies in fiscal year '16. As you know, there are complexities between carve-out accounting, pro forma adjustments, discontinued operations, and GAAP versus non-GAAP. We will help by providing appropriate reconciliations as needed.

With that, Meg Whitman, current Chairman, President and CEO of Hewlett-Packard, will be your first presenter. Let's get started.

CEO Overview

MS. MEG WHITMAN: Well, good morning, everyone and welcome to HP's Securities Analyst Meeting. We are delighted that you are here. Whether it's in person in San Jose or over the Web where we have an enormous number of Web attendees today.

So I hope you liked that video. It's just a glimpse into what Hewlett Packard Enterprise will be all about and the majority of what I'll be sharing with you today.

Now, a lot has happened at HP since we met over two years ago, especially during the last 12 months, and we're looking forward to the opportunity today to bring you up to date on our performance, our plans, and, of course, to answer your questions.

We have, as Kurt described, a very full and informative day planned for you; first, covering Hewlett Packard Enterprise, which we'll do shortly, and then later this afternoon HP Inc. where you'll hear from Dion and his team.

So here's what I'd like to cover today. First, I'll briefly talk about the challenges that we faced when we set off on the journey to turn HP around nearly four years ago. Second, I'll highlight the progress that we have made and how that is helping us accelerate the turn around. Third, I'll get a lot more specific about the separation and what it means for Hewlett Packard Enterprise. Fourth, and perhaps most importantly, I'll talk about the strategy for this new company; our market focus; how we're uniquely positioned to help enterprises transition to the new style of business; and I'll dive a lot deeper into cloud.

So no time like the present. Let's get started. We have talked about this before, but it's an important starting point to remember the journey that we've been on for the past four years and how it ultimately led to the decision to separate into two new companies. Many of you will recall that HP was in a weak position at the end of FY '11 with significant internal challenges, as well as significant market challenges. Revenues and profit pools for our most profitable businesses were declining. We faced a number of challenges that were of our own making in execution from a competitive focus to some weaknesses in our go to market, to under investment in R&D.

We also had a high cost structure that was out of line with the revenue trajectory of our business. And then, of course, there were company leadership changes, board issues, missed earnings, the write-down of Palm, and the purchase of Autonomy, reduced our market credibility, and, frankly, your confidence in HP, which weighed on the performance of the stock.

And, finally, perhaps most important for the future, we were in danger of falling behind as the technology industry began a tectonic plate shift to what we call the New Style of IT driven by cloud, big data, security, and mobility.

So against that backdrop we launched a five-year transformation journey, which we first discussed with you about this time three years ago. And if I could take you on a brief history walk, in fiscal year 2012 we really diagnosed the problems that this company faced. We laid the foundation to fix them and put a plan in place to restore HP to growth. Most important, we began taking actions to bring our cost structure in line with the revenue trajectory of the business. FY ’13 was all about fixing and rebuilding the business. We focused on improving our operations, driving better cash flow, rebuilding our balance sheet, and these foundational improvements were essential to moving Hewlett-Packard forward.

In FY ’14 we focused on recovery and expansion. We stabilized our revenue trajectory. We reignited innovation across HP and further strengthened our leadership in some key markets, setting HP up for long-term growth.

This past year, FY ’15, was all about accelerating our progress. We continued to target investment in high-growth opportunities like security, networking, and cloud, and further improved our overall execution. We also saw the opportunity to fuel the acceleration of our business by separating HP into two new Fortune 50 companies. As a result, we’re now looking forward to operating in FY ’16 as two new industry-leading companies, each with the independence, focus, financial resources, and flexibility to respond to a constantly evolving market while generating long-term value for shareholders. This was only possible because of the success that our team has had during the past four years building a strong foundation from which to launch Hewlett Packard Enterprise and HP Inc.

I won’t go into each of these, but let me give you a few proof points on the progress we’ve made since we began this journey. We’ve increased our R&D spending as a percentage of revenue each year of the turnaround, each and every year of the turnaround and launched a range of new products and services in our target markets. For example, in our Enterprise business, this includes All-Flash 3PAR storage; HP OneView, software-defined networking, next gen Gen 9, our next generation of industry-standard servers have been a big hit, a comprehensive enterprise solution on Office 365, and then, of course, HP Helion, our cloud offering. This drove significant improvements in our industry analyst ratings, especially critical markets like cloud, big data, and networking.

In Printing and Personal Systems, we've had some great innovation with the announcement our Multi Jet Fusion, our new 3D printing technology; and our first product in a new category that we call immersive computing called Sprout by HP. We also revamped our partner program and significantly improved our relationships with those partners. We're also, at the same time, improving customer satisfaction scores and you'll hear about that from many of the business units today.

We also successfully integrated several targeted acquisitions and integrations, including Voltage, ConteXtream, Stackato, and, of course, Aruba. We also formed partnerships with some important players in the industry like FireEye and Arista Networks to help fill in the gaps in our capabilities. With the creation of Hewlett Packard Ventures, we're bringing external innovation together with the best of HP to bridge customers to that new style of business.

We also made a number of key executive leadership changes, both promoting from within and hiring external talent. For example, our Hewlett Packard Enterprise Executive Counsel today we have long-term HP veterans like Antonio Neri, Martin Fink, John Hinshaw, and Mike Nefkens. But we also have some more recent outside hires to help round out the team: Our Head of Software, Robert Youngjohns; our Chief Operating Officer, Chris Hsu; our Head of HR, Alan May; our Head of Corporate Communications, Henry Gomez; and CFO, Tim Stonesifer.

So let me get a little bit more specific about what has been accomplished here and these metrics show how much progress we have made. Our stock price is up 130 percent since our low in November 2012. We have strengthened our balance sheet by reducing operating company net debt by $13.8 billion. We've reduced our cash conversion cycle from 28 days in the first quarter of 2012 to only four days in Q3 of FY '15. We've increased productivity, improving the total cost of the work force by 1.3 points as a percentage of revenue, and this is even more impressive since the revenue has decreased over the last four years.

We've also improved our employee engagement score. People ask me all the time while you were making all these changes didn't you lose the hearts and minds of employees. Quite to the contrary, our employee engagement score that we measure every year through our annual employee survey went from 57 in 2012 to 70 in FY '14 on a scale of 100.

We've also increased our partner satisfaction scores by ten points and our customer net promoter score by seven percent. Finally, we have reduced our net head count by 54,000 since the beginning of FY '12. So when you add it all up, I have to tell you I believe we are a much stronger, much more efficient, and a much more innovative company, and we are executing better across the board. We built stronger relationships with our customers and partners, and our employees are more engaged.

In other words, the company is now strong enough to execute the important decision we made to separate HP into two new companies. In the process, we're shifting now from turnaround mode to growth mode. The separation will allow each company to do things differently allowing us to accelerate the turnaround we began four years ago and do it from a real position of strength.

The fact is we have an opportunity to be more successful as two companies than we would as one. Now, why is that the case? To begin with, we've been juggling two very different business models, sets of customers, and, frankly, very different go-to-market selling motions.

As separate companies we'll be more focused on how we innovate in our business models, our products, our solutions, and our go to market. We've already started to streamline our portfolio across the businesses. Additionally, on August 1st, we successfully split the operations and IT systems of this enormous company. I'm proud to say we are now live globally with customer orders flowing through manufacturing and shipping across our entire supply chain.

Speaking of supply chain, through commercial agreements between these two new companies after separation, we will be able to take advantage of the scale that we have today and not lose any synergies as we purchase from the major industry suppliers to both companies.

So with less to focus on, each company will do core things better. Innovation that makes the biggest impact will be easier for customers to understand; we'll be able to drive the business with a tighter set of metrics at world-class levels; and each company will have a clear, well-defined strategy taking advantage of more focused markets. We'll have a deeper understanding of competitive threats and the opportunities in each market; greater agility and flexibility to respond; and, frankly, more efficient capital allocation.

We'll be able to more tightly address how we grow our revenue. For example, you've recently seen organic growth in our Enterprise Group and we are approaching the same in Enterprise Services. We'll also reestablish a competitive cost structure so that we can reinvest for growth and be more nimble.

And, finally, the separation also creates better choices for investors by creating two distinct and attractive investment profiles. With these changes we'll also simply be able to serve our customers better. We'll read the winds of change and we'll course correct faster.

So with that backdrop now I want to turn all our focus for the next couple of hours to Hewlett Packard Enterprise. Hewlett Packard Enterprise will be an industry-leading company from the day we launch on November 2nd, building on our leading position in software, infrastructure, services, and cloud. We will continue to invest in and invent entirely new ways to compute, to consume compute, and develop capabilities that go way beyond the conversations that our competitors are having; capabilities that will more effectively and efficiently deliver the business outcomes that matter most to our customers, whether it's running a more efficient traditional IT environment, or making the inevitable transformation to a secure, agile, cloud-enabled, mobile-ready future, or, frankly, most likely, doing both.

I think all of you know that I will be the President and CEO of Hewlett Packard Enterprise, and Tim Stonesifer will become the CFO of Hewlett Packard Enterprise. Hewlett Packard Enterprise will have revenues of over $50 billion; operating profit of nearly $5 billion; and an operating margin of over 9 percent. We'll have a much more balanced revenue mix between products and services. The Enterprise Group will generate 50 percent of our revenue, based on the last four quarters, and Enterprise Services will account for about 37 percent. Software and Financial Services will generate seven percent and six percent respectively.

As we announced last month, we've named the new Board Members and the new Board for Hewlett Packard Enterprise. Our goal was to create a Board with the most experienced, global-minded, and diverse members that we could find to help Hewlett Packard Enterprise win in our market. Eight of the current Hewlett Packard Enterprise Board Members are currently on the HP Board. They moved from HP to Hewlett Packard Enterprise. Five Directors will be new. Our Directors come with significant personal and professional qualifications and, personally, I'm looking forward to their leadership and the invaluable insights that they will provide around international operations, technology, market opportunities, and effective governance.

Hewlett Packard Enterprise will be smaller and more focused than HP is today, and we will have a broad and deep portfolio of businesses better positioned than ever to meet the changing needs of customers around the globe. This chart breaks out our four businesses, their leadership, and their contribution to revenue and operating profit. As you can see, we'll start with the number one or number two position in many of our key markets. We will also have one of the broadest go-to-market capabilities in the industry with our channel partners and our sales teams. The resources and solutions we provide recognize an important reality: We all live in a hybrid world with applications across a blend of public and private cloud, as well as traditional IT, and that's why infrastructure isn't one size fits all anymore. It isn't just in the data center. It isn't just in the cloud. Infrastructure has to be everywhere at the right cost, with the right management at the right scale.

Now, some of our competitors comes at this from a services-only perspective, others just from software or just hardware. We are the only company that brings it all together for customers. The company best equipped to build a bridge from where enterprise IT is today to where it must be. The result is that we play in very large and very growing markets at an important inflection time for this industry.

Our total addressable market will grow to more than $1 trillion over the next three years at a compound annual growth rate of about four to five percent. This ranges from two percent annual growth for servers to nearly eight percent for software. If you peel back the onion on these broader markets, you will find several very high growth opportunities that we're focused on leading, such as converged infrastructure, network functions virtualization, wireless campus networking, security, and cloud software. As you can see, the wind is at our backs and this is a tremendous opportunity for Hewlett Packard Enterprise.

As I mentioned, the other thing that is going on here is that there is a sea change in what most customers are looking for. They are less interested in point products and more interested in integrated solutions for their most important business problems. They are more focused than ever on business outcomes. What do I mean by business outcomes? Lower cost, faster time to value, improved agility, better resiliency, better security, higher availability, increased redundancy, better compliance, and better overall performance. These changes play to our strengths at Hewlett Packard Enterprise.

Our strategy is actually pretty straightforward. It's to provide IT solutions to our customers for this new style of business, and this is where we have the opportunity to lead like no other company. We've been helping our customers manage traditional IT better while enabling them to take advantage of the public, private and managed cloud at a pace and in a way that is appropriate for their business. It's all about accelerating achievement for our customers' business outcomes. We help them lower their costs by making their IT environments more efficient, more productive, and more secure. We improve agility delivering infrastructure built to meet the new demands of modern applications, and managing the infrastructure and applications to help our customers bring greater innovation to markets faster as those business opportunities arrive. And, more importantly, we accelerate the time it takes to go from idea to value, enabling customers to act rapidly, to seize opportunities, and to respond to threats in their market.

To help our customers and partners thrive in this new style of business, Hewlett Packard Enterprise will help them focus on transforming their enterprise through four critical areas that our customers and partners tell us that matters most to their businesses, where we have a unique point of view.

First, and foremost, businesses must transform to a hybrid infrastructure that gives them greater flexibility, agility and scale to deliver new systems and services faster while there's no disruption to existing systems that run their business. Next, they have to protect their digital enterprise from external risk. Third, they have to empower their organizations with data to give them business insights that they need to anticipate risk and opportunities in their market. Finally, they have to enable workplace productivity by delivering the right tools wherever they're needed at the right economics optimized for their business-critical tasks.

So focusing on these four transformation areas will change how we engage with customers. We're already deploying new sales methodologies and an approach that's consultative and solution led leveraging the unique position in an IP that we have across Hewlett Packard Enterprise. It will create new opportunities for growth that are based on a more focused approach for enterprise customers.

Now, let me dive a little deeper into each of these transformation areas, starting with Protect. You all know security has never been a bigger issue. As you've all seen from some very public breaches, companies and governments are vulnerable to increasingly sophisticated cyber-attacks. The potential, along with the potential points of entry, become greater and greater with the explosion of data, applications and mobile devices. Protecting the digital enterprise is now a boardroom-level issue for every company that I know. No one else can provide a more complete management of risk in all its forms than HP.

We have a range of solutions, such as HP StoreOnce to back up and recover data that helps customers keep their businesses up and running in the event of a disaster. We have one of the very best data security analytics and intelligence solutions with ArcSight. We have the second largest security operations team in the industry with over 5,000 dedicated security professionals.

Now, let's talk about empowering a data-driven enterprise. You all know companies today are awash in data and it continues to grow exponentially. The challenge is turning that data into information, information into insight, and insight into action. With big data solutions like Vertica and IDOL, customers can gain valuable business insights from all of their data. Through Enterprise Services, our analytics and data management practice provides advisory services for clients providing business assessments and strategies related to big data analytics.

Third, our customers are increasingly focused on enabling workplace productivity. Today's dynamic workplace environments require secure, anytime, anywhere access and our solutions for workplace productivity help customers operate in an efficient workplace with lots of automations and self-service.

We have a campus mobility solution with Aruba that can bridge legacy and wireless technologies to deliver seamless and secure access to cloud-based apps from mobile devices. Our strategy is right on, as shown in our leadership position in the most recent Gartner Magic Quadrant for wired and wireless networking infrastructures.

But perhaps no customer need is more important than transforming to a hybrid infrastructure. A hybrid infrastructure combines traditional IT and private, managed and public cloud environments allowing companies to manage their workloads at a cost, security and performance profile that is optimized for each application. Infrastructure matters more than ever in this new world, but customers need a new kind of infrastructure; one that supports the different and unique requirements needed to run each application separately and effectively. We help customers build a hybrid infrastructure that works for them, one that scales and ensures that they can maintain the regulatory and security requirements while giving them the choice of business models between operating expenses versus capital expenditures.

So let me dive a little bit deeper into our cloud strategy. Delivering new apps and services quickly and frequently is key to our customers' competitive advantage. Whether they build or consume cloud services, they need to drive agility while remaining reliant and compliant. They also need to be able to manage across their existing and new cloud services and automate and orchestrate to drive operational efficiencies and lower costs. But the payoff for customers is strong. In combining traditional IT and cloud, our customers can develop new processes and applications that leverage existing data and systems while delivering new mobile and Web experiences that customers now demand.

HP is uniquely positioned to guide customers on this journey to the new style of business. Make no mistake about it, it is a journey. One that customers will make at their pace that is right for their business. While every journey is different, I will say one thing, it all starts with applications. Customers need to consider a variety of factors when deciding what type of environment is best suited for each individual workload and application. They'll need to consider things like security levels; service availability; and any compliance requirements for those operating in regulated industries like financial services or healthcare.

Enterprise cloud apps are being designed just like consumer apps, like Netflix and Uber, but there's one difference: They demand a platform that allows for these cloud designs to be integrated with their traditional IT systems. So for most enterprises, their IT environment will not be all cloud or all traditional IT. It will be hybrid. They'll need to use the right environment for what these applications need, with management and security that allows customers to deliver applications that are deployed across both cloud and traditional IT, automating and orchestrating the delivery. That's where Hewlett Packard Enterprise comes in and that's where we excel.

Market data clearly shows that a hybrid combination of traditional IT and private clouds will actually dominate the market with pretty attractive growth rates. Traditional IT environments are and will continue to consume the lion's share of IT spend, at least over the next number of years. Almost 90 percent of the spend over the next three years, albeit with slower growth rates. The fastest growth will be in private cloud because, quite frankly, most enterprise customers don't want to put most of their applications and data up into a public cloud.

So customers will choose the mix that works best for their business and that is why we introduced Helion; to help our customers tackle these complex challenges as they migrate more of their applications and services to a hybrid cloud environment.

We also play across the full stack with our Enterprise Group, Software, and Services portfolios. With Helion, we can help ensure that our customers' applications are deployed to the right IT environment based on their business requirements, making it easier to build and consume workloads in a hybrid IT environment.

Let me give you an example of how we're doing this for our customers and the financial opportunity that cloud brings to Hewlett Packard Enterprise's portfolio.

Seadrill Management is a leading offshore drilling company servicing the oil and gas industry from offices around the world. It's also very active in M&A. As part of moving its headquarters from Norway to the UK, Seadrill wanted to vacate its existing data center and move 32 of its traditional applications to the cloud in less than six months. They needed an IT solution to help them do that while also providing high availability and disaster recovery. We won the services contract with a solution that delivered a managed virtual private cloud from a next-generation data center in the UK, and this platform accommodates all of the company's business-critical corporate allocations and data within a secure environment without the high cost of owning and managing its own data center. This also gives Seadrill the great benefits of cloud computing—self-service; agility; on on-demand IT.

The other thing we do here is we manage hundreds of other servers for Seadrill in other IT environments around the world outside of the VPC environment that I just described, including, by the way, 56 servers on 56 oil rigs across the world. Again, we differentiate by being an end-to-end partner for large enterprises like Seadrill, not just one point of their overall IT solution.

This turned out to be a great success for Seadrill and I think gives you a flavor for Hewlett Packard Enterprise's capability and how we benefit financially from shifts to the cloud. This shift to a hybrid infrastructure represents a high-growth and margin-accretive opportunity for Hewlett Packard Enterprise. We are the only company that can monetize a customer's journey every step of the way.

So, for example, first, we can lead with consulting services that help determine the optimal IT environment for each application. Then we sell hardware and software to help build out that new IT environment, which also includes strong attach of high-margin technology services support. We offer management services to continually operate the new environment for our customers. And with Hewlett Packard Financial Services Organization, we can give them the flexibility to purchase all of this by OPEX or via CAPEX. So Hewlett Packard Enterprise is able to generate revenue at every step of the journey because of our complete portfolio of hardware, software, services, and financial services that provides the complete solution for customers.

With an understanding of how we monetize cloud, I want to provide some more insight as to the significant size of our cloud business. We expect our cloud revenue in FY ’15 to be approximately $3 billion, growing over 20 percent, with a similar pace expected for the next several years, and like I said earlier, cloud is accretive to our company overall.

So what I hope you take away from this discussion today is that cloud is a large, high-growth business which we’re monetizing across the entire Hewlett Packard Enterprise portfolio. We have a very clear point of view that hybrid infrastructure is the future and the environment that best meets the needs of our customers around the world, and we are really well-positioned. Market data shows that private and managed cloud markets are larger and growing faster than public cloud, and this creates a significant market opportunity for Hewlett Packard Enterprise and the solutions that we deliver that are already leading in the marketplace.

The journey to a hybrid infrastructure is a complex undertaking, and customers need a strategic partner with the deep experience that’s required to create a roadmap that will deliver those superior business outcomes that customers crave. Our open hybrid strategy with Helion allows Hewlett Packard Enterprise to align with the needs of our enterprise customers. One thing you can count on is that the new Hewlett Packard Enterprise will invest in the innovation, the solutions, and the go to market that is necessary to grow our hybrid infrastructure and our cloud business, and establish our company as a strategic partner of choice for companies that are moving to a hybrid infrastructure and to the cloud.

In closing, Hewlett Packard Enterprise is in a strong position. As a stand-alone company, we’ll be able to be more focused than ever before on how we innovate in our business models, our products, our solutions, and our go to market. And our timing is absolutely perfect. Our customers are in a period of transformation and transition that you see only once every ten to fifteen years in this industry. They are grappling with huge changes in their industry with massive shifts in the technology landscape. And Hewlett Packard Enterprise is the natural and trusted partner for those companies, because we not only bring the complete technology solutions to help them through their transformation, but we have the actual experience of having done it for other companies and also having done it for ourselves.

So the results of these factors, I believe is that we have a tremendous financial and growth opportunity. We're going to leverage our rich heritage of innovation and market-leading positions in hybrid infrastructure, software, services, and cloud to capture these growing markets by delivering business outcomes to our customers that ultimately translate into shareholder value.

Thank you for joining us today. Now, what I'd like to do is go onto each of the business unit presentations. I'd like to introduce Mike Nefkens, who many of you have met before, who has run our Enterprise Services business for a number of years, and he'll tell you how Enterprise Services is going to augment Hewlett Packard Enterprise's strategy. Thank you very much.

Enterprise Services

MR. MIKE NEFKENS: Great. Thank you, Meg, and good morning, everybody. What I'd like to do, I'd like to kick off our Enterprise Service's session with the five key messages I'm going to focus on today, and each one I'm going to dive into in more detail. Let's get started.

First, Meg talked about the solution-based approach we're taking for Hewlett Packard Enterprise, and Enterprise Services is essential to delivering these end-to-end solutions. In many cases, we pull through the entire portfolio, driving significant revenue, not only for services, but for hardware and software as well.

Second, I know everyone here saw our Q3 earnings, and I'm really pleased to report that Enterprise Services revenues are stabilizing and our go-to-market transformation is starting to deliver positive results.

Third, our cost-reduction program is working. This is evidenced by our expanding margins. Fourth, our workforce rebalancing is progressing well. This eliminates the need for future restructuring beyond the $2 billion indicated on prior earnings calls.

Finally, and most importantly, in 2013 we laid out our journey for you; a journey that would get us to a market-competitive cost structure and one that would enable growth and operating margins of seven to nine percent. Today, we're on track to deliver this.

Before we dive into the financials, I'd like to spend just a couple minutes on how Hewlett Packard Enterprise's solution-based approach with services at the core really delivers results for our clients. Let's start with what we do. Large enterprises and governments turn to Enterprise Services to advise, transform, and run their most complex IT programs.

First, we advise them with best practices and roadmaps. Then we help them transform, integrating the newest technologies, taking them from the traditional to the new style of IT. When I say transform, we leverage the thousands of successful transformations we do looking at best practices to provide clients with the best approach for them, and in many cases we guarantee them the business outcome. So transform is our sweet spot.

Then after we transform we often run and manage our clients' systems and infrastructures. Now, for us, the bigger and more complex the challenge the better. Our clients need us and rely on us to be by their side day in and day out. When we do this, we deliver world-class solutions. As I said earlier, we pull through significant HP software and hardware.

Now, let me highlight what ES does for our clients using the four transformation areas Meg talked about earlier. First, in transform to a hybrid infrastructure, I'll start with a few financial services examples where we do working ranging from small projects to complete transformations.

My first example is a medium-sized transformation program. It's around mortgage-processing modernization, which doesn't sound very sexy, but when we help banks digitize their mortgage processing, taking them from a paper-based process to one that is fully digitized, we help them drive out more than 30 percent in cost, and create a better business model, attracting more clients and revenue. We do this by applying our digital frameworks and methodologies, and we move everything we can to cloud-based services.

Another example would be Deutsche Bank. As many of you know, in February we announced a ten-year, multi-billion dollar agreement to modernize their IT environment and significantly reduce their IT infrastructure costs. As part of that deal, we now provide dedicated on-demand data center services, including storage, platform and hosting. This allows the bank to upgrade and reduce their number of applications, making bank operations easy to use. This is a true end-to-end solution across services, hardware and software, and it will deliver efficiencies back to the bank in excess of a billion dollars.

So in essence, in the transform to hybrid infrastructure space, Enterprise Services migrates applications from traditional infrastructures to cloud-based ones, and we do this for enterprises in every industry around the world.

Moving next to protect. Many people don't realize this, but we are actually one of the largest cyber security companies managing ten security operation centers, intrusion detection, and remediation for some of the world's top governments and enterprises. Probably the best example is what we do for the US Navy and Marine Corps. Here, every month, we detect 26 million threats and prevent more than 231 million authorized intrusion attempts, so we guard those who guard us.

We have world-class products like ArcSight, Fortify, Atalla, and Voltage. In April, we announced a partnership with FireEye. This significantly bolsters our security capabilities. We help clients proactively determine if they've been breached, recover from breaches faster, and reduce potential damages. We don't only do this for the US Navy and Marine Corps. We do this for governments, banks and enterprises all around the world. We are the best in the world at protect.

Next, is empower. Think about the world we live in and how connected we are. Every connection creates a unique digital footprint, whether it's a text, an e-mail, a video, or a customer transaction. The value comes from turning this data into actionable insights. Essentially, that's what we do.

We help organizations manage and derive value from all their data independent of where it comes from.

Let’s take Volkswagen as an example, and specifically warranty management. Discussions about warranties over social media drove a flow of dissatisfied customers back to the dealers. This forced the dealers to try and fix the problem and with little to no guidance from the OEM. By capturing and analyzing all the social media data, the OEMs were able to quickly recognize an early pattern developing. The OEMs were then able to engage directly over social media pointing owners to the advisory notice and guiding them to their nearest dealer. All this was made possible through our actionable analytic services in HP IDOL. This is a perfect example of where Enterprise Services and Software are working together to deliver solutions for our clients.

Finally, the last transformation area is enable workplace productivity. For workplace services, we’re ranked in the top quadrant by Gartner and we currently support over 6 million devices globally. This is where we help clients like Kraft Foods modernize their workplace IT.

When Kraft and Mondelez split, Enterprise Services migrated users from Microsoft Office Communicator to a more modern Microsoft Lync, an on-premise collaboration tool. Leveraging HP’s private cloud architecture and implementation, we now provide authorized contractors, third-party developers and employees for both companies the ability to request access to whatever application they need to do their job anytime, anywhere, from any device. This allows both companies to easily ramp personnel up or down according to business needs without the cost and inconvenience of issuing traditional laptops or other devices. So this not only modernized their environment, it also delivered significant savings.

And now with Aruba as part of the HP portfolio, we’re focused on helping clients take advantage of secure wireless network technologies to further enable world-class workplace productivity. So I hope these examples give you a better sense of what we do for our clients and how essential we are to their operations.

Now, as you recall, when I stood up in front of you back in 2013, we were setting a plan in place to modernize our services business. Modernize, meaning transforming our delivery network from one that was high cost with little automation and mostly onshore, to one that's automated with the best shore-based cost structure, and one that would allow us to be competitive and deliver world-class services. We've made tremendous progress in this journey.

Today, we're providing these types of services to our clients more effectively. We've diversified our business. We've seen a dramatic shift in our cost structure, and our new client win rates and client retention are at an all-time high.

So before we dive into the P&L, I'd like to spend a minute on improvements we've made across some of our operational KPIs. In our core operations, our total cost of workforce is at 58.5 percent. It's the lowest percentage of revenue since 2013. The location mix of our workforce is critical as we drive towards a more competitive cost structure, and here we significantly improved our low-cost location mix by six points. Our operational incidents have decreased 44 percent, and we're now operating at world-class service delivery levels.

The quality improvement is evidenced by the 11-point increase in our net promoter score. As a matter of fact, we now have the highest score amongst our competitors in the IT service industry. Our clients are happy, making it easier to sell more.

Looking at growth, we're seeing a 41 percent increase in strategic services led by cloud, security and application services. Our growth from new logos has increased 106 percent in total contract value. We've won the largest deal in the industry for two years running, and we're experiencing double-digit improvement in our win rates.

We've improved our operations, our clients are happier, we're growing in strategic areas, and we're beating our competition. All in all, I'm pleased with the progress. We now have a solid foundation, which is yielding stabilized revenue and expanding margins.

Now, let's take a look at the results. The last two-and-a-half years have set the foundation, and the second half of 2015 to 2018 are all about acceleration. So point number one on the chart, from 2013 to '15, our revenue declined $4 billion. This was largely driven by the transition of three large accounts and currency headwinds. We knew about the account transitions in 2013, and the revenue and profit dropped from these drove us to diversity our client mix and transform our cost base. We learned that we can't rely on a few accounts for profit and growth like in the old world of traditional outsourcing. I'll talk about how we diversified revenue and profit for accounts in a few minutes.

Back to the chart on point number two. Six percent down in 2015 doesn't look like revenue is stabilizing. We'll go deep by quarter so you can see the turn in the second half of the year. Our focus on selling into our new operating model, smaller deals, new high-end services, and targeted mega deals is paying off.

Point number three, transforming our cost base to be market competitive has been key to our transformation. The changes we're making have allowed our cost takeout to outpace revenue decline. As a result, we've delivered margin expansion for the second year in a row and the pace is accelerating in 2015. We did all this while keeping our service quality the best in the industry, evidenced by our net promoter score.

And point number four, at the security analyst meeting in October of '13, we said we would drive this business to a seven to nine percent operating profit. We said it would take five years, and I'm proud to say that we'll accomplish this before the fifth year.

As I also mentioned, we've successfully diversified our client base. In 2013, three accounts made up approximately 65 percent of our overall operating profit. So I'm going to take a deep breath here—65 percent of our overall operating profit. Today, no single account represents more than ten percent. We're no longer reliant on one or two large accounts. Our account base is much more diversified, and our portfolio is stable, well-balanced, and filled with higher-margin new style of IT accounts. We've worked really hard to accomplish this.

Now, take a look at the right-hand side of the chart. Revenue is stabilizing and it's important to look at the quarterly progression, specifically in Q3 going into Q4. Consistent with our guidance, we'll expect to exit Q4 with revenue down less than three percent in constant currency.

This positions us well for driving results to be flat to growing in constant currency over the long term.

So you can see, we're mostly through the big three account transitions and our improved win rates and new logo acquisition is beginning to show up in the numbers. Our account base is solid, our pipeline is strong, so we're confident in continued stabilization of the topline.

Now, at the core of our revenue turnaround has been the transformation of our go to market. We focused on four key levers. The first thing, people. We significantly improved the quality of our sales force through aggressive performance management and meritocracy. Quite frankly, we've been able to do more with less.

On the portfolio side, we've enhanced our offerings. We're investing in the areas that our clients need most, and where we have the highest ability to win against our competitors. We're better qualifying the deals we pursue through new tools, like the deal help checklist, which, as you saw, has resulted in higher win rates.

And, finally, we're not just training our sales and account teams. We're certifying them across our portfolio, driving our go-to-market teams to have proactive conversations with our target clients. This is already showing up in a larger qualified pipeline. So solid progress across the board in go to market, and we continue to get better every day.

Looking as some of our key sales indicators, starting on the left-hand side with a stable and secure account base, we're selling more services into our current accounts and winning new business. Our combined new logo and add-on TCB is up eight percent.

On the right-hand side, you can see the pipeline we're building to grow our business. We've made targeted investments in our portfolio, specifically in the areas of cyber security, cloud migration, workplace, data center modernization, and business process services. As a result, our pipeline is up 22 percent, which positions us well as we head into 2016.

So now, let's take a look at the progress we've made on the expense side. Back to our P&L chart, let's focus on point three. Our expense takeout is now outpacing the decline in revenue. We took out $700 million in FY ’14 and net cost takeout is expected to be 1.4 billion in 2015. Earlier I declared our cost program is succeeding and we’re on our way to achieving the seven to nine percent operating profit target. Looking at point four on the chart, you can see our OPM improvement and progression. We’ve delivered these cost reductions in a healthy sustainable way, improving our net promoter score as we redesign our delivery processes.

Now, the cost progress really has been driven by seven levers; four focused on labor, and three on non-labor. Transforming our operating model to a more automated one with an aggressive move to offshore delivery is key. We’re well into that journey now, and the combined impact is $1.4 billion net cost takeout this year, and we see the pace of these cost takeouts continuing.

Most of this year’s benefit has come from workforce optimization as we continue to shift the way we deliver services. We’re delivering from fewer sites, with a focus on growing our offshore industrial delivery centers, like Manila, Costa Rica, Bangalore, and Sophia. This means we’re exiting labor in high-cost countries.

Also, major process redesign in our procurement function has driven savings of approximately $300 million this year as well. Lastly, we’re investing in automation and data center rationalization, both of which are important for continued future savings.

Now, going a bit deeper into some of our key cost transformation KPIs. We’re exiting 12 percent of our high-cost data centers, driving up efficiency. We’re marching toward an improved location mix of a current 36 percent in low-cost countries to 60 percent by 2018. We’ve made solid progress as we’re now in the mid-40s. Our overall cost as a percentage of revenue continues to improve at six points. By the end of 2018, only 40 percent of our workforce will remain in high-cost locations, with 15 points of that as a result of required onshore public sector employees, and the balance of that being in our commercial business.

So our current workforce rebalancing will eliminate the need for future corporate restructuring beyond the 2 billion indicated earlier this year. These cost actions have enabled significant margin expansion, and we’re confident by the exit of 2018 we'll have a market-leading cost structure allowing us to win even more in the market.

As you can tell, I am really excited about the progress we've made. We still have a lot of work to do, but we've turned the corner, and now we're focused on accelerating innovation and value for our clients.

I'd like to summarize and close with our five key takeaways. First, ES is essential to HPE's solution-based approach. Services is at the core of our four client transformation areas. Second, for the first time in three years, ES is stabilizing our revenues and we see continued momentum as our go-to-market investments take hold.

Third, our cost-reduction program is succeeding and our margins are expanding. Fourth, the improvements we've made to our business model eliminate the need for future corporate restructuring. Finally, the transformation journey will result in a market-competitive cost structure, a foundation for growth, and a sustained operating margin between seven and nine percent.

Now, before I hand it over to Robert Youngjohns, I'd like to close with a video where one of our clients, Del Monte, describes in their own words the strong partnership we have and the value we drive for their business. With that, let's roll the video, and thank you.

Software

MR. ROBERT YOUNGJOHNS: So good morning and I'm absolutely delighted to be speaking to you all today on behalf of Software at this year's securities analyst meeting. This is the first time that I've met many of you, so I thought it might be good to start with a very brief introduction.

I joined Hewlett-Packard actually to the day three years ago to run the Autonomy acquisition. I took on the role of EVP of Software in May of 2014. I came to HPE from Microsoft where I was President of Microsoft North America. Prior to that, I was CEO of Callidus Software and also held roles at Sun Microsystems and at IBM.

So during my time and my really brief time with the software business, I've seen a huge amount of change. I think this is a really exciting time for our business and I'm looking forward to sharing with you some of our strategy today.

When you looked at this business two years ago, I think you might have seen a collection of software assets that happened to be owned by HP. My intent is that by the end of this session you see Software as an integral part of the future of Hewlett Packard Enterprise.

Today, I'm going to start with our financials and give you some context behind Software's recent performance. I'm going to tell you about our investment strategy that we've developed around our solutions portfolio, and the decisions we're making to improve our focus. I will then outline our plan to execute in the coming months. We've made a lot of progress in many areas, but I think we've still got a lot more to do. Lastly, I'm going to finish by talking about the way in which Software integrates into Hewlett Packard Enterprise and the way in which we're essential to the go-forward strategy of the company.

Let's get started. Firstly, let's look at our financials. Over the last 24 months, software revenues have declined slightly in local currency, and that's not out of line with what you might have seen from many traditional licensed-based software companies. Our go-forward expectation is that these revenues will level out during FY '16. Alongside that, we have consistently shown improved operating efficiency and growing operating profit, which is margin-accretive to the company as a whole. We've also got very low capital requirements and strong cash flow, and that's beneficial to Hewlett Packard Enterprise as a whole. Finally, we've done a great deal of work on our products, investing in R&D, and bringing our innovation engine back to a place of real strength.

I'll give you one example. Our Service Manager product has been under tremendous pressure in recent years in a highly competitive market. We've invested a great deal in this product and we've come up with something we call Service Anywhere, a world-class solution that integrates analytics to automate IT service management delivery. These capabilities are effectively going to reinvent the service management market, and this is just one example of the work that's happening across our entire portfolio.

This progress has been acknowledged by industry analysts, such as Gartner, Forrester, and IDC, and has resulted in HPE being named the leader in many of their reports across the IT business. In fact, Software is currently named as the leader in over seven Gartner Magic Quadrants, and we just selected a sample here. I think in other areas we're moving very, very quickly with our new products, from the left and bottom right up to the top. It's our objective for everything that we do.

So let's do a closer look now at the revenue breakdown across the Software business. We're organized into the following businesses: Security, Big Data, Application Delivery Management, and IT Operations Management. The revenue split of these businesses is depicted on the right, while the split of Software overall is on the left. Across all our four businesses, license revenue is still a large part of the overall mix and is 28 percent of the total revenue for Software.

This is actually positive because our license business, in turn, drives our Support and Maintenance business, which is 52 percent of the mix and delivers very strong recurring revenues with great stability, good profitability, and great cash flow. Our focus on innovation has led to improved customer satisfaction, which, in turn, has led to much better renewals of support, and that's highly accretive to this business.

So while the market is moving to SaaS, we see our support business as a natural strength and a bridge for those customers who prefer to consume software this way. We provide SaaS options to our customers across our entire portfolio and we expect to see an increasing percentage of SaaS revenue as we move forward. Incidentally, we see the faster shift to SaaS in the core IT management market, and we're seeing there very solid growth in bookings today, which we will expect to lead to double-digit percentage growth right through to FY '18.

Now, the focus on SaaS and other subscription-based offerings means we do experience some short-term pressure on our licensed revenues, and this does create short-term revenue headwinds. Nevertheless, we expect our overall revenues to stabilize in constant currency in FY '16.

Now, I'd like to look at our portfolio, and I think it's important to give you some insight into the way we think about the Software business. Over the years, Software has assembled a number of leading and diverse assets. We've a number of newer products that provide anchor IP to the transformation areas that Meg talked about earlier, and these are critical to the go-forward strategy of the company as a whole.

These are our growth products and they represent the areas where we focus most of our investment for the future. They make up about one-third of our portfolio, and that is a percentage that is continuously increasing. This growth is actually fueled by some pockets of really high-performance from anchor IP. I mentioned service anywhere a moment ago from our ITOM [phonetic] business, and we're currently seeing a three-fold increase in the revenues for that product. Admittedly off a small base, but I think a great indicator of how we are reinventing the service manager segment. And we have a lot of other products that are coming off a small base and growing in high double digits or triple digits, and it's these pockets of growth that I think deliver the promise that we can actually get a great revenue trajectory for this business in the future HPE.

About half our portfolio is made up of what we think of as foundation products. These are products that are strategic to our business and are critical to our customer base. These products are not growing at the same pace as our growth products, but are well-established with loyal customers, and they create an extremely strong recurring support revenue stream.

So going forward, we will continue to invest as appropriate to these products to ensure we provide the capabilities that our customers want. Essentially worth noting is that unlike the hardware business, software support includes rights to new versions, and this is a key driver for customer support renewals. A strong roadmap for these foundational products is absolutely critical to our renewal business, and where we've done this well, such as in our application delivery management business, the results are strong increases in renewal rates and that flows right through to the bottom line.

And, finally, you have what we call our margin-optimized products; about 17 percent of our portfolio. These are assets that are not strategic to the go-forward strategy of Hewlett Packard Enterprise.

Now, we've done a great deal of work over the last year or so in reviewing this portfolio and have already made a number of moves where appropriate to tighten our focus. As an example, you've seen that we've moved the Marketing Optimization portfolio to HP Inc. These assets lined up much more effectively with HP Inc., given the solutions and buyers in the market, so we decided it made absolute sense to transition it.

We also recently announced the divestiture of our iManage business, originally part of Autonomy. These assets did not map effectively onto HPE's transformation areas, so we made a conclusion that we should move them out in order to apply more focus to the products that do.

So we're going to continue to be very, very disciplined in assessing our portfolio and we'll manage it for profitability or divest as necessary in order to retain the right innovation focus to be competitive in the market and fuel the Hewlett Packard Enterprise solutions around the four transformation areas.

And, lastly, as Meg says, where we need to augment our portfolio in order to properly fuel one of the transformation areas, then we'll look to partner with other market vendors to fill that gap.

Now, if I look at the market overall, we clearly play in markets that are strong and growing, and we have a leadership position in several segments, but I think straddle a market that's very heavily bifurcated between SaaS vendors that are growing strongly and traditional licensed-based software providers that are currently typically delivering flat revenues. But the total addressable market that we look at is eight percent growth compound, I think Meg showed that earlier on, and the total addressable market is 53 billion or bigger depending on how you structure it. So the opportunity here just for Software is real and I think we're extremely well-positioned to capitalize on it.

What I want to do now is take a moment to look at our strategy to get this business back to those sorts of growth levels. The first step is focus. In fact, I say to my team steps one, two, and three is focus, focus, focus. This step includes the disciplined assessment we've applied to our portfolio and the changes we are making to make sure our assets map very, very clearly to the broader HPE strategy. We do see additional opportunities to bolster our portfolio in some areas while divesting in others, but overall, we're making good progress in this area.

The second is strategic alignment, and this comes down to the work we've done with our partners in EG and in ES and to our integral presence in the four transformation areas. Specifically, we're defining new pricing models and redesigning our field coverage model to map more closely onto the other business units. This is absolutely critical because I truly believe that our first and best route to market as a software business inside HP is through our colleagues in Enterprise Services and the Enterprise Group. For that reason, for example, we recently realigned our software sales organization regionally which now maps directly onto the sales organization in EG and ES. A lot of progress there. Still more to do.

The third step is about evolving our financial and operating model. As I mentioned earlier, there is a shift happening in the market to SaaS and I think we're managing that transition effectively with a due view on the profitability that we need to provide to the company. But the other thing that is going on right now is a change in buying behavior. Our customers are more and more in the lines of business. Our solutions are becoming easier to deploy and easier to consume, which means purchasing power in many times is moving away from traditional IT.

So we need to respond to this both in terms of product readiness, but also how we approach the market with our sales and go-to-market teams. And going into FY '16, we're making a number of moves with our go-to-market model to address this, including much more focus on Web selling to address this shift in buying behavior. We've really amped our presence up on hpe.com. An interesting statistic is 60 percent of the customers who buy software through this channel are net new to our business, so I'm really happy with the momentum that we have here, and we have very, very aggressive plans in this space for FY '16. We've also shifted from the outside traditional selling model to more inside selling, and we are ramping up our resources there as we respond to market changes.

And, lastly, we've retained a very heavy level of product specialization. This has to be a key in a software business. Many of our competitors are very focused. They have point solutions that address very specific markets, and we need a sales force that can take them on head to head. Good progress in this area; major announcements made in the last couple of weeks on how we approach GTM going forward.

Perhaps the most important part of my presentation is not just Software as itself, but it is the role that Software will play to provide strategic value to Hewlett Packard Enterprise. This isn't just about the revenue and margins for the Software business, it's about the value we bring more broadly to Hewlett Packard Enterprise.

So Meg spent some time explaining the four transformation areas of the new company and talking through the business outcomes that these deliver to our customers. What excites me so much about the Software business today is that we're absolutely integral to all four of these areas, and in many cases, actually provide the anchor intellectual property that unites the overall strategy and delivers competitive differentiation to HPE's core offerings across all four transformation areas.

I'd like to take a look now at Software's role each individually and give you some examples of this anchor intellectual property that we provide.

The first transformation area, hope you're getting this now, is all about transitioning to a hybrid infrastructure; getting better value from existing infrastructure and delivering new value quickly and continuously for all your applications and workloads.

So at Hewlett Packard Enterprise our software enables this through what we call the automate, orchestrate, transform program. We expect those words to be on the lips of every sales rep in every discipline in our company over the next year—automate, orchestrate, transform.

First, we help our customers automate application testing, infrastructure deployment, and monitoring. Next, we break down silos in the organization, orchestrate processes, such as DevOps, and application lifecycle management. And, finally, we work with our customers to transform their organization to be ready for this move to the hybrid infrastructure, delivering improved user experience, but also accelerating the development of complex hybrid applications with things like service virtualization and so on.

We've partnered very, very closely with our colleagues at Enterprise Group and Enterprise Services to design this value proposition. As a result, I think we got a fantastic opportunity to take our total software tool set and offer it to our existing infrastructure install base.

A great customer example here, and I think it's customers that bring this to life, is Air France. Using our automate, orchestrate, transform solutions, they've achieved an 85 percent reduction in the cost of provisioning and have automated 90 percent of their installation processes. Doing this reduced server cluster installation time from six days to one day and virtual machine installation from over 24 hours to just a few minutes. Great results; one particular client.

This transformation area maps very clearly onto our IT operations management business, and also the HPE Helion cloud business, with whom we work very, very closely. The anchor IP in this area includes a rich collection of assets. There are solutions like Helion cloud system with cloud services automation, which simplifies the deployment and management of hybrid IT services, and is currently growing at strong double digits year over year.

We also offer HP Propel, which we developed jointly with our colleagues in Enterprise Services, and this enabled a lot more self-service in the world of IT for delivering services both to users and to new applications. Just a couple of examples of great products that power this transformation area, and both those products, as it happens, are growing very, very strongly.

Secondly, customers are protecting their digital enterprise. Mike and Meg did a great job here in describing the incredible depth of expertise that HPE brings to the problem. Security, in our view, is rapidly becoming a big data issue, and this is where we focus our software innovation to allow customers to better predict and detect attacks. We also have industry-leading tools to scan applications for vulnerability, as well as to using encryption much more broadly across the enterprise.

A great customer example here is actually Microsoft. They've taken a very forward-looking view of the problem and completely share our belief that this security is rapidly becoming a big data problem. They've implemented HPE security analytics across their business, and this has allowed them to proactively monitor systems for suspicious behavior and to take action really quickly to minimize the damage.

So, again, this transformation area aligns extremely well with the Enterprise Security Software products business, which offers anchor IP, such as ArcSight for log analytics; Fortify for application vulnerability testing; and Voltage, which we acquired recently for encryption. We continue to invest in ArcSight and recently made some really exciting additions to it with user behavior analytics and DNS malware detection, which all add value to what is already an industry-leading product.

Next, we helped customers empower their data-driven organization by helping them harness all the data that matters, regardless of source or scale. I think, again, we have a unique point of view. When we think about big data we don't think about science projects. We think about the application of analytics to everyday problems. Mike talked about a great example there of the work we do with VW. We take big data from a series of science projects to real, practical, value-creating solutions today.

Couple of examples. Facebook uses Vertica for all their analytics to enable more effective mobile advertising. Another example, Etsy, the world's largest online custom craft retailer, who also used Vertica to understand user behavior and better target the way in which they present their products to their customers to have a better experience. We do that through two key assets: IDOL and Vertica.

Firstly, IDOL, which enables customers to understand and act on their unstructured or human information; their e-mail, their instant messages, their documents, voicemails, social media, audio, and video. It's IDOL that really enable that VW application that Mike talked about earlier.

And the second is Vertica, which allows you to apply blazing-fast analytics to massive volumes of structured or semi-structured information; log files, click streams, sensor data. Vertica can also modernize existing data warehouses, and we've seen good examples of where it's delivering a thousand times better price performance than the industry leaders today, and that product is currently growing double digits year over year.

Finally, the last transformation area where we participate in of all four of them is about workplace productivity. Here, our software helps customers deliver amazing applications and digital experiences by delivering a powerful suite of capabilities, ranging from agile project management, automated quality, and security testing, network virtualization, mobile experience management, and so on.

The anchor IP in this area, again, includes Service Anywhere. It's actually hopefully getting the sense of my favorite product at the moment because that allows people to revolutionize the way they do self-service within the enterprise. Also, AppPulse Mobile, which provides a SaaS-based mobile apps-performance monitoring tool to allow you to create world-class mobile apps for both your customers and for your employees.

That's just a very brief overview of how we in Software have mapped our business onto the transformation areas, and some of the anchor IP that we're providing to each of these areas. I hope you see we're essential to all four and the assets we provide are going to deliver real competitive differentiation and value to Hewlett Packard Enterprise.

We've made a lot of progress over the last year or so and I couldn't be more excited about the integral role we will play in Hewlett Packard Enterprise with margin-accretive great cash flow, and this is a financial benefit, clearly, to the company as a whole.

Most important of all, we provide that anchor IP to all four of the transformation areas, an integral part of the go-forward strategy for the company, and the value we provide is actually much stronger than the revenues we deliver. We've done a lot of work on our portfolio, I hope you've seen that, and we'll still work on that problem. We've identified growth products where we need to invest and are following through with the right levels of investment.

There are great pockets of growth within this business. Many of them coming off of small base. But it's these pockets of growth that give me confidence in stability in FY '16 and long-term growth. Many of those core foundational anchor products are now growing at double or triple digits.

Looking forward, I think we've got a really clear strategy to manage the remainder of our portfolio for profitability, tightening our focus through divestiture where it would make sense to do so.

Finally, I hope you get the sense we've got a clear plan to get this Software business back into long-term growth. From a pan-Hewlett Packard Enterprise perspective, we will continue to align really, really closely with Enterprise Services and Enterprise Group to develop joint go-to-market solutions and drive, upsell, and cross-sell. And within our Software business, we will continue to shift our go to market towards a model that better meets the needs of a market moving to SaaS and to more purchase by lines of business. Many of these changes are well under way and we're already beginning to see good results.

In closing, sort of ending where I began, this is a very, very exciting time for the Software business at Hewlett Packard Enterprise. Real momentum underway and I'm incredibly energized by the innovation and collaboration that's coming across our business. I actually think as you look at Software and as you look at Hewlett Packard Enterprise, very much the best is yet to come.

So with that, thank you. What I'd like now to do is hand over to my friend and colleague, Antonio Neri, who is Executive Vice President and General Manager of the Enterprise Group. Antonio.

Enterprise Group

MR. ANTONIO NERI: So thanks, Robert. And welcome and good morning, everyone. Since this is the first time I'm in front of this audience I thought I will spend a couple of minutes to give a little bit of background about myself. I have been in the IT industry for 35 years, and 21 of those are years with Hewlett-Packard. I had the privilege and the honor to work pretty much in every single business unit and in every geography.

I joined HP in 1995, the beginning of '95, as a call center support agent supporting the infrastructure products in four languages. And since then I've had the opportunity to participate in the value creation and helping customers in the PC business, in the infrastructure business, in the imaging and printing business, in the services business. And as of recent in 2011 through 2013 I led the technology services group. And before I took the responsibility for the Enterprise Group I actually led both the HP Server and HP Networking businesses.

So I'm very proud about the heritage of my tenure at HP. Obviously I have an emotional connection with this company, but most important, very, very excited about the future of both Hewlett Packard Enterprise, HP Inc., but most important about the momentum we have today in the Enterprise group.

So with that I would like to start with what are the key five messages I want to leave you this morning as I go through my presentation. If anything, just remember these key five key takeaways. First and foremost, the Enterprise Group is delivering strong revenue growth with stable margins. We have our momentum back. And you're going to see it throughout the financial presentation. This business is now accelerating.

Second is that our experience is perfectly matched to the needs of our customers today, but most importantly tomorrow. The IT infrastructure business really matters. It matters more than ever and customers are spending more with us. Our innovation is accelerating. We are firing on all cylinders. I will show you the excitement about our roadmap, the innovation we brought to the market, and the insight about the future and why we feel very confident about our ability to execute. This is all proven in the market share gains we have had in the last two quarters.

And last but not least, because I had the privilege to lead this business Technology Services is a key differentiator for us. It is the crown jewel of Hewlett Packard Enterprise in the Enterprise Group that delivers resilient cash flow. So all these key takeaways should give you the confidence that the Enterprise Group is positioned for success, is positioned to accelerate growth, and to deliver profitability for Hewlett Packard Enterprise.

So let's start with our performance indicator including the financials. So first, you can see our revenue growth is accelerating. We are having a very strong year whether you see it from the actual dollars or constant currency. You know, Q3 was the highest quarter in growth in constant currency in four years. And we have sustained margin despite the significant challenges that we face with currency across the world. Clearly we are a very diversified business. Obviously a lot of the business is outside the United States. But our relentless focus on cost management across the entire value chain allow us to participate in the growth area, invest in R&D, and deliver sustained profitability across our portfolio. So think about some of those numbers since the exit of 2013. We have taken more than 600 million dollars in costs in our supply chain while we modernize our processes and systems. We also continue to take costs of our Technology Services group, a process that started many, many years ago because we understood the trends in the marketplace from traditional scale up to scale out from Unix to X86. And this is why we are very well positioned to sustain profitability in our business.

And also obviously continue to work in our offers that we bring to the market, our discount and contra across the entire value chain. So very strong performance. Again, we are very well positioned to continue to keep this momentum going as we go forward.

But perhaps one of the areas I'm actually the most proud about it is our focus on customers. You know, since the beginning of 2011 and again when I joined the Technology Services group the first mandate is to focus on customers. We had the relentless agenda to put the customer as the North Star in everything we do. You can see the significant progress we have made both in customer satisfaction and customer dissatisfaction. This is now industry leading customer satisfaction in the market. And on the right side of the chart you can see some of the quotes and the difference we make every single day in sustaining their operation, in modernizing their operation, in automating everything they do, basically keep their business running. We support more than 90% of the Fortune 100 companies. Everything we do really matters, the same as Mike talked earlier today.

But the other interesting fact is that customers are not the only ones that are giving us the praises about the progress we have made. In fact, industry analysts are saying the same thing. Look at this chart. We are the magic quadrant leader in the most important categories. So let me give a double down click on each of them.

First on servers, accolades are our god given right. We invented the X86 server. Twenty-five years ago we introduced the first X86 server. We introduced the first X86 rackmount server. We invented the bladed infrastructure for virtualized work loads. We brought the supercomputer at the rack scale for all sizes of enterprise. We introduced the first open infrastructure for Cloud service providers. And at Discover in June we introduced the concept of composability because we believe data centers have to become context aware in an app driven world. So this is a trend we are very well positioned. We have been the market leader for 78 quarters in a row. And as you look at the inflection point in technologies the world is going to consume more compute, not less compute, and this is a significant advantage that Hewlett Packard Enterprise is going to have going forward.

Second trend, on storage. Our 3Par converge storage platform is doing fantastic. When we architected this platform was in mind of Cloud, in mind of All-Flash Array. And for the first time in many, many years HP is now statistically tied for the No. 2 position in the marketplace. So this is very, very important, and we still are the No. 2 total storage vendor in the world. And one of the reasons is because of our compute presence and our scale in that market.

Third one, which I'm very proud today to show this chart to you because HP and Aruba together are now the absolute market leader in campus wired and wireless networking. This has not happened in 25 years. HP is now the leader in this market ahead of Cisco. And this is a very historic moment because it tells you the ability with the focus and the right strategy and relentless execution that we can win in the networking market, something we're going to take head on as we go forward.

And last but not least, as we know infrastructure is going to be consumed differently going forward. In fact we believe that 30% of the total infrastructure will be consumed in a more converged set of pooling resources. Our converge infrastructure converge system portfolio, whether it is a converge system for general purpose, appliance for hyper convergence, reference architecture, or workloads like Hanna are growing very rapidly. In fact our total converged system portfolio grew 84% last quarter. Clearly a testament that all our assets put together and orchestrated and optimized for a given workload is uniquely a position that HP has today.

So all this recognition from analysts and customers won't be possible without true innovation. And this is our innovation, the innovation that we brought to the market in the last 18 months. And this is something that HP knows how to do very well because of our engineering heritage. Now, we didn't just brought innovation for the sake of innovation, but we understood the key inflection points, the key business model changes. And so what I would like to do today is highlight actually five of them, just because of interest on time, so you understand how our thought processes work when we think about innovation.

The first one, the HP Cloud line. This is the result of a joint venture that I completed with FoxConn. The biggest trend we've seen obviously is the need to build Cloud infrastructure. And we understood there is a lot of customers out there that are minutely focused on optimizing infrastructure to a specific workload. In that specific market is all about sharing everything. Sharing computer sources, sharing storage, sharing the fabric, reducing space, reducing power consumption. And this platform now has been growing in the last 14 months triple digits, and is margin accretive to Hewlett Packard.

Second trend, HP OneView. One of the challenges that customers have today is their need to manage their heterogeneous environment with one single pane of glass, the ability to automate their task to update their infrastructure with one single press of button. And we actually embarked on this journey many years ago by thinking about all the tasks that an IT operation is to go through and how we can optimize that work and reduce costs and increase their speed and agility. HP OneView with one single pane of glass with a consumer like experience provides you the ability to manage your entire infrastructure, not just HP products but other products. And together with Robert I actually will work in integrating the software stack, including HP Ops Analytics, which actually through the analytics work we can predict failures before they happen and we can actually automate those tasks ahead of time.

The third innovation I would like to highlight is our Big Data analytics. There are multiple workloads in big data. Obviously SAP HANA is one of them. But our significant presence in mission critical gave us an advantage to optimize that SAP workload with an infrastructure for in-memory performance and obviously lower cost and agility. It's all about delivering information in minutes, not days and months. And our Superdome X which we introduced last year at HP Discover in Barcelona now is growing double digits and is the main platform that we build on our in-memory capabilities with our Converged System 900, which is the platform targeting SAP HANA. This platform is growing 30% year over year.

Another big trend, high performance computing. I want to take a little bit of pride of this because two years ago when I joined the HP Server team I told my team, high performance computing is going to become really relevant in the next five years. So we worked together with our engineering team understanding what it really takes to deliver the economics that normally have been enjoyed at the academia level or the government level, and bring it to enterprises of all sizes. And we introduced the HP Apollo family. The HP Apollo family has multiple platforms. A platform for big data with our HP Apollo 4000, a platform like Apollo 6000 which actually targeted specifically for hyperscale workloads, and Apollo 8000 which is our supercomputer on water cooling that allows us in a rack scale to provide 256 Teraflops of compute power just in one rack. So this platform is growing 35% year over year. And we are going to bring more innovation over the next months in innovating around specific workloads. The customers believe this platform can deliver lower cost of ownership and lower power consumption.

The next one, 3PAR. It has been a huge success for us. Two years ago we went through this a mid-range platform. It has been unbelievable growth and customers understood the need to use resilience in the way they store data at a lower economics. Since then we introduced our All-Flash Array platform because ultimately the cost of a flash has been so low that ultimately allow us to store more data with lower latency and lower costs. Today the 3PAR All-Flash Array is the leading platform in the market. We grew 550% last quarter, six times faster than the market and ahead of EMC and Pure and Nimble. So we can leverage our innovation, our scale in the go to market, our ability to sell total solutions in a way nobody else can do.

So those are examples of what I just showed you on trends. But the one trend I want to spend a little bit more time is the Campus. You know, I think people don't realize that the Campus market in the networking space is actually more than half of the total networking market. It's a 19 billion dollar opportunity that delivers 65% gross margin. HP and Aruba is now the leading provider for that market. Why? Because we bring the capabilities of HP switching with HP wireless, with Aruba, and their software provisioning to take advantage of a significant trend which is basically access to the network through wireless connectivity by providing the right policy management, the right security, and the personalized experience the customers expect into those environments. So we believe this is a huge opportunity for us. We have the best solution in the market, and we believe over the next ten quarters when the market is going to transition between the old kind of technology to the new 802.11ac which allows you to access the network in a faster way with its 2.5 gigabits per second, 5 gigabits - - or 10 with the right policy management and security wrapped around it. This is a huge opportunity for us which we will take head on and you will see more innovation for specific vertical markets.

Now, I was just giving you the size of some of the networking campus here, but when you look at the total market we participate is big. It is big and healthy. It is a 227 billion dollar opportunity that the Enterprise group participates every single day. Traditional IT will continue to be more than 70% of how people will consume technology. So whether you see servers, storage, or networking, all those markets are growing at a healthy pace. Technology Services which is all about advising customers, helping them architect the right solution on prem and then operate that data center. But ultimately there are some trends underneath that we absolutely will participate and innovate.

First, converged infrastructure. Probably 25% of the IT infrastructure will be consumed in a converged fashion. There is a sub-segmentation you need to understand. First, workload centric approach, general purpose approach, hyper converged appliances, and then reference architecture driven. This is a 20 billion dollar opportunity. HP can deliver the right solution for the right workloads of the right economics.

Second is Cloud hardware. Last week we got just a report out that now Hewlett Packard Enterprise is the leading provider for Cloud infrastructure in the world. Bigger than Cisco even though they are larger networking, because we can provide entire set of solutions to our customers. Obviously this market is growing very healthy.

And then last but not least is the Telco business with a network function virtualization. Big trend there. As these large service providers need to converge Enterprise IT and the Telco IT to be able to compete and deliver services in minutes, not a year later. They need to converge and virtualize that infrastructure. They need to Cloud-ify that infrastructure, and then they need to decompose the way they do things.

So these are big trends, healthy markets that we participate and we have the right expertise and engineering capabilities to continue to grow our business.

Now, the next slide is very, very important because it talks about the challenges CIOs have today. What is the challenge? The CIO can no longer just focus on costs and keep things running. They have to become value creators. It's all about delivering business outcomes. And in doing so they need to bridge the old with the new and do it in a way that's very effective for them. So on one side of the equation you have the need to contain costs. How I continue to host those critical workloads and applications in my data center, but reduce the costs and reduce the power consumption, increase the agility, modernize their IT infrastructure, while at the same time they implement a hybrid infrastructure for the new more Cloud native applications, more mobility type of workloads, and the need for speed and agility. At the end, time to value is everything. That's the fundamental challenge that CIOs have today. And we believe in Hewlett Packard Enterprise we are positioned uniquely to help customers bridge the old to the new as they need to focus on business outcomes.

So how we deliver those business outcomes simply put into the four transformation areas. This is what Meg and my colleagues just walked you through. And for us in Enterprise Group it's very exciting to participate in delivering those solutions to our customers.

So let me give you an example how we do it today for some of our key customers. Let's start with protect. Peel Ports. Peel Ports is one of the--is the single largest actually UK port in the United Kingdom. They handle more than 70 million tons of cargo per year. They actually represent 15% of the total cargo in the United Kingdom waters. The customer implemented our HP storeonce wants with our HP proactive care solutions. What that translated to is significant lower costs because they centralized the entire backend architecture, the entire health management, the entire automation, and now they have a total disaster recovery implementation across the entire European ports. So big transformation area for them that the power of our technology with services we can deliver solutions that deliver true business outcomes.

Second, a power data driven organization, Intel. Intel is a partner of us, and so two examples here. First when Intel came to us they said we want to optimize our electronic design application. Basically they use that one a lot to design their chip sets. And together, we worked together on the HP Apollo 6000 I showed you earlier. Not only were we able to optimize a single threaded application for lower costs, lower power consumption, but we improved 40% of their performance. And that's the power of the engineering that we can bring to the table, including products like Intel. Since then we announced a joint alliance where together our infrastructure and our services, whether software stack or high performance computing, we can actually provide high performance computing on demand and also verticalize set of solutions.

The third one, enable workplace productivity. One of my favorite ones, Levi Stadium. Obviously yesterday was a big game. Good for the 49ers. I'm a Packer fan just for the record. But when you go to the Levi Stadium it's a total different experience. You get to the Levi Stadium, you download the app, and you get personalized type of services. For example, you are distracted and you want to do the instant replay. Or if you want order food and beverage from your seat. Since the implementation of our Aruba Meridian software capability with the Aruba wireless and the location services the Levi Stadium has increased in just two months last year their revenue by a million dollars. This is all about not only providing instant gratification to the spectators and provide a better experience, but it's also about delivering profitable growth for their business.

Now, the last one obviously is transforming to a hybrid IT infrastructure, which is probably the biggest transformation journey customers are going to go through. This is an example with DreamWorks. In 2001 DreamWorks established a partnership with HP and since then we have driven joint technical innovation in exploring next generation technologies, including HP Helion, storage, 3PAR, servers, and networking. It's all about delivering a better product environment for their artists. Since then we actually implemented what we call the HP Flexible Capacity Services in their data center in Las Vegas, which is one of the largest data centers they have for the DreamWorks animation studio. Now they have a Cloud capability that addresses 10% of the studio animation rendering in one location with the public economics. So they didn't need to go to a public Cloud. We brought the public economics to on-premises to maintain security and the speed and the agility that they needed and to continue to meet their artistic demands.

But when you look at all of this, these four transformation journeys at the core is all about unlocking the value of the app and the data. Because fundamentally it comes to that. It is how we unlock the value of the app and the data as we drive this customer through these four transformation journeys. And we believe the Enterprise Group with my colleagues are uniquely positioned to achieve that.

So now, let's take a look a little bit closely how we do some of this work. So transform is No. 1, which is the most critical transformation area the customers are going to go through. It's very important to understand every customer is in a different stage of their transformation. The first step of that transformation is to converge and virtualize. Whether you are doing a tradition IT or doing a convergence you have to virtualize your environment to get ready for the Cloud.

The second step that Robert talked earlier is about automation and orchestration, how you automate all my data center tasks and orchestrate the workloads where they're most effective.

The third area is to transform application and service delivery. In that transformation you need to understand are those applications ready for the Cloud, and this is where Mike and his team play a significant role. Ultimately everybody has to become a service broker because at the end of the day it's all about delivering services. And last but not least in this continuous delivery process Dev Ops plays a significant role. So how we create an environment where developers come in and develops and instantaneously deliver that new application so they can monetize it quickly. This is the power of hybrid IT infrastructure whether it is accelerating IT operations, whether it's transforming into a hybrid IT infrastructure, this is about bridging the old to the new. And this is where the Enterprise Group together with Software and the Enterprise Services can deliver that promise to our customers.

Now one other business that's very core to our success is the Technology Services business. We thought 4 years ago that the markets obviously were moving to this new style of IT. You can no longer just take the businesses a break fix only. We started a journey to transform our service portfolio. From the right side with an advisory consulting services, you know, helping them design and architect a data center in the Cloud. We even help customers design and build the data centers. So we have those capabilities in our portfolio. Whether it's architecting the storage and also what it means to store data on prem as well as off prem. Or whether it's implementing a networking infrastructure that's Cloud ready including software defined networking. And also wrap it around with a need to provide education services because at the end of the day the need to keep their IT up to speed with the latest trend has been a significant challenge.

On the left side, when you talk about operating your environment, how I can provide foundation services that are simple and agile. How I can provide you proactive monitoring of your infrastructure and fix problems before they happen. How I can provide you a heterogeneous contract for your environment with the flexibility to consume with capex or opex. And ultimately, how I can augment your staff with the critical expertise that you may not have in your organization.

So I would like to just spend a minute on one specific portfolio which has been a significant success, but it's a testament of bringing innovation in this new style of business. The customer needs a one neck to choke when it comes down to supporting an entire infrastructure. Datacenter Care is that portfolio. With Datacenter Care actually not only do we provide HP traditional software defined infrastructure support, we configure and operate as a code, we can deliver the flexible consumption models, and actually provide a compliance framework. All of this with a flexible capacity allows you to provide the building block mass customization type of contract that will take you on a journey.

Datacenter Care is resonating with our customers because on this journey to transform it to a hybrid IT infrastructure they need to match their expenses at their pace. And so the momentum we're having is very, very significant. In fact since 2012 we have on board more than 4,000 customers and it's growing rapidly. This is now one of the biggest components of our TS portfolio and has been growing 26% just in 2015. And Datacenter Care now represents 35% of the entire TS revenue and profit.

So I talk about the contractual side. Let me talk about the consumption side with flexible capacity. You can see that with flexible capacity the main takeaways that we bring in the public economics on premise. You pay only for what you use, the flexes and scale for what you need, and you get the Enterprise support in your data center. So you get those three key business values. And as of last week Frost and Sullivan, which is a very important analyst in the tech industry, has given us the award for innovation in a market that is desperate for being able to innovate in an area where traditionally there hasn't been a lot of innovation. So for us this is a very important part of our portfolio. As people move to more of the Cloud, the hybrid IT infrastructure, we can provide them the flexibility in whether they want to consume as capex or as opex. And we do this together with HP Financial Services. HP Financial Services is the reason why we can do this together with our HP Technology Service portfolio.

So many of you said, okay, got that, but obviously have relied a lot on your traditional support business. This slide shows you that our reliance to the traditional Unix business has been declining. In fact, we estimate that by the end of 2015 less than 20% of our support business is coming from the old style of IT, whether it was the old storage GBA platform or whether it was the old Superdome Unix platform. Most of our business is now coming from this new portfolio. And we understood that four years ago. We transformed the portfolio and this is the result of that transformation. And customers love it because it really is positioned for what they need now and going forward.

So in closing, let me recap what I said at the beginning. The Enterprise Group is delivering strong growth. It's positioned for success, and the momentum is in our favor. Our experiences really match what customers are asking today, but most importantly tomorrow. Infrastructure really matters, and it matters more than ever. I think our innovation as you saw there is alive and well, but I'm very excited what you're going to see three months, six months, 12 months from now. And ultimately Technology Services is a key differentiator that we tend to leverage and use as we help customers in these four transformation journeys, as we help customers to deliver this new style of business.

So with that, thank you for your time. Now we're going to break for lunch and come back at 1:00. Lunch will be served outside. Thank you.

[END RECORDING]