Okay, let’s go ahead and get started. Good morning, everyone. I am pleased to welcome Tim Stonesifer, CFO of Hewlett Packard Enterprise. Before the Company split into two, Tim was CFO of HP Enterprise Group. Before that, he spent time with GM and GE in a number of finance roles.

Before I jump into questions, I just need to read that Morgan Stanley disclosures, including personal holdings, can be found at www.morganstanley.com/researchdisclosures, or at the registration desk right outside this room.

So Tim, thank you again for spending time with us.

Thank you. Good to be here.

Certainly good timing to be sitting down after earnings last week. You did revise down fiscal year 2017 earnings by $0.12. And you talked about currency, commodities, and execution as the drivers. But can you help us understand between those three, what was the mix that drove that $0.12 reduction?

Sure. So, it’s always hard to gauge, depending on how you net things off. But in general, I’d say roughly two thirds of it was foreign exchange, and the remainder was really driven by commodity pricing as well as execution. So we certainly had some execution issues.

So I think on the currency front, if you reflect back, we gave our 2017 outlook in October of last year at our security analyst meeting. So at that point in time, the euro was trading at about 1.10. The yen was at about 101. And then on the earnings call, the fourth quarter earnings call towards the end of November, we did talk about some pressure. Rates were less favorable. I think at that point in time the euro was at about 1.06, the yen was at about 111.

And so we did call that out. But given the fact that we were three weeks into the year, given the fact that we were rolling into a new administration in the US and weren’t sure what was going to happen there, as well as the fact that we did have hedges in place that protected the first quarter, we felt that at that point in time that we would just continue to monitor the currency environment.
So as we talked about last week, as we sit here today, we're now entering our fifth month of the year. Those rates are still less favorable. The euro is still at 1.06. The yen is at 113. So we felt it was prudent at this point in time to reduce the guide and incorporate some of that pressure into our outlook. Now, we're going to continue to try to get price. We have put price increases in place. Our experience shows us that it takes time to get the full recoup, if you will. But we do have the price increases in place, and it will be dependent on what happens in the marketplace, what competitive responses are, and what have you.

The other key component for us was the commodity prices. So if you look at DRAM, as you heard on many of the calls, there was a significant increase in DRAM cost in January. So that is another one where particularly given our heavy server mix that does cause some pressure. So again, similar to FX, we will go out with price increases. We will continue to implement those. We'll have to engage the competitive response, the market response. But that will certainly put some pressure on us in 2017.

Then lastly, we had some execution issues. So we talked about the execution. We need to make sure that we shore those items up and get back on track over the course of the year. So net-net, we've talked about it a lot. We had a couple different options. We could have gone--the $0.12 equates to roughly $300 million. And so we could have taken out another $300 million in costs, or we could continue to drive the strategy, continue to make the strategic investments that we think will drive long-term value, and that's the choice we made.

Katy Huberty: And how should we think about that $0.12 flowing through to the Remainco EPS of $1.25 to $1.35? So for this year, and then as you look forward given that you're taking these price actions and hope to be able to offset much of that.

Tim Stonesifer: Yes. So the bulk of the $0.12 will go to remain co. So if you look at that $1.25 to $1.35, you should reduce both ends of that by $0.12 now for 2017. Now as you think about 2018, we feel like we will be back in that range, assuming that we can recapture that price for both FX and commodities. So again, it's dependent on how the market reacts, dependent on competitive behaviors. But assuming everybody is sort of in the same boat in trying to offset those pressures which I would assume, then we should from an 2018 and beyond, the normalized view, we should be back in that range.

Katy Huberty: And similarly, how should we think about the Remainco $2.1 billion to $2.4 billion normalized free cash flow?

Tim Stonesifer: Same; same thing. I mean again, we should be in that range. If we don't recover as much price as we anticipate, we'll probably be at the lower end of that range. If we are able to offset the pressure, we should be at the higher end of that range.

Katy Huberty: Last week you've also talked about weak orders from a tier one cloud service provider. Do you expect that demand to come back? And how important is the cloud business to your revenue and gross margin?

Tim Stonesifer: Yes. So, we did see some pressure in tier one that we talked about last week. We have adjusted our outlook basically to have a run rate type of number of what we saw in Q1. So we are not expecting a big lift. If we do get that, again, that would be upside for us. But we're assuming sort
of the run rate for the rest of the year-- you know, it does put pressure on the revenue, to your point, less so on the margins because that tends to be lower-margin type business. But that's how we sort of think about it for the course of the year.

Katy Huberty: And you got this question on the conference call. But how do you get confidence that weak demand is a market issue versus that customer moving away from HPE?

Tim Stonesifer: Again, I think it's-- we'll look at our whole-- I mean it's our biggest tier one customer. So we're not anticipating that demand going away. But we're just kind of anticipating that it's sort of flat with what we saw in 2016.

Katy Huberty: At a lower level?

Tim Stonesifer: Yes.

Katy Huberty: Okay. And given the recent declines in servers and storage the last couple of quarters, what does that mean for the ability to grow revenue in remain co this year? And do you need to, or do investors need to believe that you can grow in servers and storage longer term in order to hit that GDP-like growth that you talked about in the past in that business?

Tim Stonesifer: So I think from a growth perspective, it's important to segment the tier one that we just talked about, and then the rest of the business. So again, the tier one will be based on the demand-- excuse me-- we will continue to focus on profitability. So I don't want to grab share for share sake. I want to stay focused on returns and profitability. So that will sort of toggle based off of that.

When you look at the rest of the portfolio, we feel like we can grow. And it's really dependent on-- I'll call it three things. So certainly we had pressure in our core ISS business. The market is tough, but we were down more than the market. We anticipate losing a little bit of share. So we need to do things like improve our quotes to cash. We need to be able to work more efficiently and seamlessly with our distributors and our value-added resellers.

Given the pressure in tier one, we do think there's some opportunity in tier two and tier three. Now that's good news as well, because it has a higher attach. Margins tend to be a little bit higher. And then alliances is another area of opportunity for us. So we do do some alliance business today. So if you think about the Accentures, the Capgeminis. But as we move forward and ES is no longer part of the family that should open up some more opportunity. Because they're seen as a competitor. So shoring up core ISS will be very important.

I think the other thing, and this was part of our decision to sort of reduce the guide and continue to make the investments. We need to continue to invest in the high-growth areas. So if you look at high-performance compute, I mean depending on what study you look at, the market is $8 billion to $10 billion, growing at 7% or 8%. That's an attractive marketplace for us with decent margins. And that's why we did the SGI acquisition. That business, the high performance compute was up 30%, 10% organically. All-flash array up 29%, Simplivity is another good example, hyper converge we feel is a growing market with attractive margins. We needed to strengthen our position in that marketplace, and that's why we did Simplivity.
And then the other big thing for this year will be Synergy. So we've talked a lot about synergy coming out. That is in the blade segment. And that we need to make sure we execute on. So continuing to invest and optimizing those higher-growth areas will be important to not only the growth equation, but when you look at margins it's important as well. Because we should get a natural lift, given that that's a higher-margin profile business.

And then the last thing, and that's very important and encouraging is our TS business. So TS was up 4%. Now some of that was driven by the fact that we had Aruba services in there. We had SGI services in there. But even if you look at it organically, we were up 2-2.5%. And that is incredibly important, given the margin profile in that business. So the good news there is 85% of that revenue is recurring. So we're confident that we can grow that throughout the course of the year.

So we do think there's opportunities for growth, and it's really all around we've got to toggle that tier one and do what makes sense. And then when you look at the rest of the business, shore up core ISS, stabilize TS, and then continue to invest in the high-growth areas.

Katy Huberty: Within the server business historically, there's been this tradeoff between growth and margin. When server growth is good, margins come down, and vice-versa. Why do you think that won't be the case going forward?

Tim Stonesifer: Yes. So I think when you look at the tier one component, again, that has an impact more so on the margin rates than the margin dollars. So we got a little bit of a lift this quarter because we had less tier one. So that helps the rate. But I think going forward, again, it goes back to my earlier comments is there is plenty of growth and margin lift associated with the higher growth areas, the high-performance computes, the hyper converges, the Synergies. And TS, as long as we can continue to grow TS-- and orders have been up for three consecutive quarters-- we should be able to get both core growth and margin lift in the portfolio. But again, I don't want to underplay that we need to shore up that core ISS and make sure that we execute.

Katy Huberty: We talked a fair amount about servers. But the storage business was also weak. And even when you compare it to some of your competitors, the business was weaker than the overall market, at least for those that have reported thus far. So talk about some of the portfolio gaps or your access to commodities that resulted in this divergence between HPE's storage business much weaker than others.

Tim Stonesifer: Yes. So I think if you take a look at the overall market, I mean the market is definitely tough. So if you look at traditional, it was down anywhere between 10% to 12%. Converge was down something similar. So it's definitely a tough market. But obviously everybody is dealing in the same marketplace. I think for us, we need to be able to continue to drive the all-flash growth. So we were up 29%. Admittedly, that was down a little bit if you looked at Q4, I think we were up 70%. Prior to that we were up 100%. We did have some SSD issues. But again, everybody is sort of in that same boat. So we need to figure out how we can shore up that supply to continue to drive the growth.

And then we do have some portfolio gaps, I'll call them. So we have come out with some simplified pricing. We have come out, we've bundled some compression that we feel will help us grow going forward. So I would just say that it's an incredibly tough market right now. Competitors are performing well. But if I do look at our overall share, if you look at the last 11
quarters in storage, I think we've gained share 8 or 9 quarters. So we just need to continue market sure that we stay focused and execute.

Katy Huberty: The Company has executed well in networking. I think you're very happy with the Aruba acquisition. There was double-digit growth in that business up until the third quarter of last year, when we saw a slowing, a little bit of a recovery last quarter, but still probably not where you'd like to see it. Talk about what it takes to get the networking business back to double-digit organic growth.

Tim Stonesifer: Yes. So I think if you recall back in Q4, we talked a little bit about how we had some--a pushout in some deliveries and installations in one of our large customers. So we saw some of that come back in Q1. So Aruba was up 20%, which is basically in line with how that company was performing prior to the acquisition and in the first couple of quarters out of the gate. So I think getting that back on track is helpful. I think the other thing that's helpful is the pull-through that we see from some of the HP legacy products. We saw some of that, particularly in the campus and branch, we saw that kind of growing at mid-single digits.

Datacenter networking is a challenge for us. And that's where we're hoping this new partnership that we announced with Arista should be able to drive some growth going forward. And that will start to ramp up over the course of the year. So I think if we do those three things, we should be on track.

Katy Huberty: Technology Services, which you mentioned previously that that's really been a bright spot the last couple of quarters, very helpful given the margin profile of that business. But I think when investors hear about double-digit declines in the hardware business, they worry about the sustainability of the Technology Services growth. So talk about your outlook there, and particularly some of the unattached services, even with that installed base potentially shrinking; can you still grow TS on the back of those new services?

Tim Stonesifer: Yes. I mean that's a great question. And it is a critical part to our overall financial equation. So the tier one pressure, there isn't really a lot of attach to the tier ones. So from a TS and profitability perspective, that pull-through perspective, it's really not that big of a factor. Now the way the other things that are helpful is as you look at some of these other pieces of the portfolio that we are growing, kind of the SGIs of the world and things of that nature; they tend to have a higher attach. So the more that we can grow those segments of the business, that will help the overall attach.

To your point, we have done a decent job around the proactive services component of it. So I mean if you were sitting here five years ago, given what was going on in UNIX, you would have predicted that that business would have just sort of fallen off the face of the earth. And we've been able to stabilize it through things like the proactive services. So that is something that will continue to drive the growth, the order growth, which will translate to revenue growth, despite the lower attach areas in servers and tier one, as an example.

So I think there's plenty of room for opportunity there. The other thing that we spend a lot of time on is what we call service intensity, which is basically attached dollars per unit. That was up, call it, 10% or 12% this quarter. So although units may be down, as long as you can keep that service intensity up, that should help you from a growth perspective as well. So it's sort of a
combination of those two or three things. And again, 85% of that revenue is recurring. So we feel very comfortable that over the course of the year it will continue to grow.

Katy Huberty: So when we consolidate what we've just talked about in enterprise group, which will be the majority of remain co, once you close the software and services deals. Talk about the margin profile and trajectory. Because they've been moving in the wrong direction. But when we add all of that up, what are the factors that can allow you to stabilize margins? And should we think about an upward trajectory longer term?

Tim Stonesifer: Yes. So I would say shorter term, if we shore up the core ISS, again the tier one component doesn't have a significant impact on the margins. So shore up the core ISS, grow those-- continue to grow those high-growth areas, hyper converged, high-performance compute, Aruba; and continue to grow TS that should stabilize the margins. And longer term, we should be able to get some life. When you look at remain co, once we're done with all the spin merges, again, we'll get a natural lift just because ES was a bit of a drag from a margin perspective. So we feel longer term there's probably another point or two of growth from a margin perspective that we should be able to capitalize.

Katy Huberty: How should we think about cash flow this year? You offset some of the pressures with lower pension contribution. And even in the near term, in 2Q, there is some movement in other liabilities and assets that go against you. Could we see a negative cash flow quarter in 2Q?

Tim Stonesifer: Yes. So let me start with Q2. So Q2 will be negative cash flow. And we did see a benefit in Q1 in other assets and liabilities. And it's primarily driven by the fact that as an example, we had some software invoices that we accrued for some internal IT work. We're going to pay that in Q2. So that's really just a timing thing between Q1 and Q2. But as you think about what you model for Q2, I would apply your normal seasonality and then put some pressure on that, given the timing of those payments.

From an overall perspective, we still feel comfortable with a negative $1.8 billion. And so we paid the $1.9 billion in pension payments related to CSC. Now keep in mind when we talked about this at SAM in October, we had a number of about $2.5 billion. So we have paid a majority of it. There are still more payments to make. Those payments won't be finalized until we actually close the deal. But given where we sit today and what we see from a macroeconomic perspective, we would expect to see some upside in that, call it, $200 million or $300 million, depending on how things shake out.

So that upside will basically offset the earnings pressure related to the take-down, and then some smaller incremental cash charges related to the SGI acquisition and the Simplivity acquisition. So I feel good that we'll hit the negative $1.8 billion. And again, I think the important thing from a cash flow perspective is your point earlier around as you get to remain co and that normalized free cash flow, it should be in that $2.1 billion to $2.4 billion. And we will--the other thing that I think is important that we talked about at SAM is we should be very close to that normalized number in 2018. I know we've been talking about for a while. But we'll be done with the separations. The restructurings will be done. Again, most of those restructurings were related to ES. So we won't have that pressure going forward. So we feel pretty good about the normalized view in 2018.
Katy Huberty: As both combined HP and then as standalone Hewlett Packard Enterprise last year, the organization has done a phenomenal job on cash conversion cycle. Is there additional work to be done, or is most of that behind you? And where do you see cash cycle days longer term?

Tim Stonesifer: Yes. So to your point, I mean we did a heck of a lot of work around this last year. So we went out, as an example, to over-- I think it was over 40,000 or 50,000 vendors, and changed terms. We took a hard look at our collections processes and reengineered some of those processes. So if you looked at our past dues, I think we took that down from sort of 10% down to the 5% type of range. And then we also looked at inventory and looked at our processes around, particularly on the restocking and the bin stocking. And so a lot of work was done last year. And you saw that improvement in the cash conversion cycle.

So I think the good news is we were able to capitalize on that. And we made structural changes. And because of those structural changes which are obviously harder to implement, but once you implement them, they're more sustainable. So as I think about going forward, I would see our CCC being in sort of that mid-single-digit range from a days' perspective. I don't see a significant use or generation through working capital. I think we'll sort of normalize at that level.

Now what will happen is as we do the spin merges, I think that cash conversion cycle from a remain-co perspective will go in the negative range. Because if you think about ES, they have a higher CCC, same for software. So we will get a lift there.

Katy Huberty: Okay. So this is the fun part. When you're done with the software and services deals, you have $7 billion plus by our calculations, of cash on the balance sheet. How do you think about unlocking further value through putting that cash to work?

Tim Stonesifer: So I mean we feel very good about our strategy. So our strategy very simply is make hybrid IT simple. And we're going to do that in the datacenter. We're going to do that in software-defined infrastructure, private cloud. The other thing we want to do is empower the intelligent edge. We love the Aruba asset. So we're going to continue to leverage that. Campus and branch, industrial, IoT; and then we've got the services that we're going to wrap around that.

So whether it's the TS, whether it's financial services, whether its consulting services; so we feel very good about the strategy. Now to your point, we have a healthy cash balance. So the way we really look about at it and think about it, is we're going to continue to implement this returns-based approach. So that drives the strategy. So when we do that, we look at organic investments. So if I think about all-flash array, Aruba; those type of things, those fill out the strategy and then drive growth for us.

We're going to continue to look at ventures. So ventures for us, the Pathfinder, for those of you who are familiar, it's a great tool for us where we can go in, test out technology, and what's really important for us is the [secret scales]. Because our strength is really our broad distribution. We're going to look at partnerships. So I think the Arista partnership is another thing that we're going to continue to do. And then we will look at M&A.

And the way I would think about M&A is we are looking for complementary product technology that leverages our distribution where we can blow out some profitable growth. So I think Aruba is a great example. Our wireless portfolio was a little light, we went out and did Aruba. We're seeing some nice growth there.
I think SGI is a great example, high-performance compute; we needed some help in the portfolio there. We should be able to drive some growth there. Simplivity, very similar; too early to tell, but same type of approach. So that's how we think about the M&A front.

And then we compare those growth opportunities. We also look at share buybacks. So this year, this quarter we returned $750 million in the form of share repurchases and dividends. We're still committed to the $3 billion that we talked about at SAM in October. So we sort of balance those three things. And that's how we think about capital allocation.

Katy Huberty: The organization has been a bit guns-shy from larger deals after autonomy. So how do you think about M&A in the context of potentially a larger deal than you've done in the last couple of years? And so what do you think about from a strategic fit? Does it have to be accretive right away, or is there the opportunity to fill out the portfolio with something bigger?

Tim Stonesifer: Yes. I think there's-- I mean we continue to look at M&A. I think that again, it's more I can't give you a dollar size as to what we're looking at. But what I would tell you is it's more in the form of an Aruba. It's more in the form of a 3PAR, of an SGI. I mean those are the types of acquisitions that we've done in the past that have worked well for us. So again, it's really around that complementary product technology.

Now I'm not afraid, and quite frankly I quite like the-- if I can get the complementary technology and take out some cost, I love that. But the consolidation play itself just to take cost out for cost sake, that's a little less attractive. So the technology piece is an important element of our M&A strategy.

Katy Huberty: Okay. Let me ask one more, and then I'll go out to the audience. A question on tax reform; obviously no one knows where we end up. But most experts agree that we'll get some form of tax reform end of this year or maybe early 2018. And there's been a fair amount of discussion around border adjustments and tariffs and how do we protect the US and also pay for this. When you think just from a big-picture standpoint, what could HP do to its supply chain to the extent that border adjustment was an element of that tax reform, what can you do to fight the pressures on your tax rate around bringing more of your supply chain back to the US?

Tim Stonesifer: Yes. So let me chop it all the way up and just for us, as many companies, I mean the three elements of the potential tax changes. The first one is the reduction in the statutory rate, US statutory rate from 35% to 20%. So if you look at our non-GAAP effective tax rate today, we're already significantly below that number, the 35% number. But we would get some benefit. And more importantly, actually, is the transition from the worldwide tax system to the territorial tax system. That would provide some benefits for us.

So we would benefit from that. The second one obviously is around the repatriation tax. If there were to be a one-time holiday or a reduction, we would benefit from that, as most of our peers would. As you all know, a vast majority of our cash is offshore. So that would enable us to bring that back. Now having said that, I don't think it really changes our capital allocation strategy. I don't think it changes our approach and strategy around M&A. But it would be a benefit. It would be helpful, no doubt about it.
And then to your question around the border adjustment tax, this is by far the most complex one. And for-- I mean it's certainly as it sits today, it's certainly disproportionately hurts net importers versus net exporters. So that would cause a significant pressure point on us. We'd have to look at supply chain and all that. But our team is really spending more time on looking at modifications as to how to make that work. Because again, as we sit here today, we don't think it works. And I'm not sure it would be passed as it sits today.

But there could certainly be some modifications. But if you look at supply chain, as an example, I mean one of the things you could do is you could increase the deduction you get for bringing back jobs to the US. It's not clear to us as it sits today, I'll take Mexico as an example. Because we moved a lot of stuff to Mexico from a supply chain perspective. The tax benefit you would get to bring that stuff back to the US, 20% call it, that doesn't-- at least in our case and I'm sure many companies have the same thing. That doesn't offset the labor arbitrage and the productivity you have by doing that work outside of the US.

So that could be an example. That's one example of how they could make some modifications to make the overall thing work. And then I think they'd have to work on the timing. Like how do you phase this thing in, give companies enough time to make the supply chain adjustments that you need to make to implement it as efficiently as possible?

So again, I think this one too, it depends on what blueprint you read or what version of it. I mean the end game is really from a US perspective, just by the statutory tax reduction; that would cost about $1.2 trillion. Their view is they would receive a good guy, if you will, for the repatriation. Because although you've got a pay a tax, people would be incented. That's a good guy, at $600 million. So you sort of have $1.2 billion that you've got to figure out, which I think they're leaning on this border adjustment tax. I think there are other ways to kind of offset that that makes it a little bit more balanced from a net importer, net exporter perspective. But we'll have to wait and see what happens. But it's clearly the most complex one that's out there. And I think there's going to have to be some serious modifications before that gets rolled out.

Katy Huberty: Thank you for walking through that. That's helpful. Let me stop for a moment and see if there are any questions in the audience. If you have a question, just raise your hand, and we'll get a mic to you. There's one down here in the front.

Unidentified Audience Member: Hey, Tim. Good morning. Thank you for taking my question. So last year there were rumors in the press that there was private equity interest in HPE. I'm just wondering what strategic benefits there could be towards being a private company. And said another way, other ways that you're looking towards unlocking the sum-of-the-parts value that some people look at you guys as. Thank you.

Tim Stonesifer: Yes. I mean I think being a private company, it's not different from any other business. It just gives you more flexibility, right? You don't have the quarter-to-quarter earnings pressure. You could take a longer view on investments. You could take a longer view on some of the strategies that you're implementing. So we don't spend a lot of time thinking about that element of it. I mean we spend most of our time focused on the strategy and executing that strategy.

The other question that we get is would you sell more stuff; would you divest more stuff. You continue to get smaller. And when you look at EG, we get a lot of questions around EG, as an example, since that's the bulk of remain co. And when you look at the economics around that, as
I’m sure most of you realize, it doesn’t really make sense because of the pull-through you get through TS, in that services component, and that being a significant amount of the profitability.

So there are rumors out there. We stay focused on our strategy. We’ve got some execution issues in Q1 that we need to shore up. And that’s what the team is focused on. But thanks for the question.

Katy Huberty: What about the financing business? I know you were asked this question at the Analyst Day. Do you need a captive financing business?

Tim Stonesifer: Yes. You know, I’ll have to say, I spent 18 years at GE, and I spent some time in financing businesses. And I have to say the business is run extremely well. It’s somewhat independent. And the other thing I would say, two things; one, customers like to have that consumption flexibility that financial services provides. And the other thing is when you look at the salesforce in the financial services business, they are very seasoned, very tenured, great relationships with our customers; and they actually pull through a lot of that hardware. So I think the business is run well. And we don’t really anticipate anything changing on that front.

Katy Huberty: Good. Any other questions here?

Unidentified Audience Member: Hi. I have a question on the memory. You said that commodity (inaudible) prices has been the reason for weakness in margins. So I think it’s at both DRAM and NAND. I wonder in your half, how much is from this memory and given the fact that DRAM guys are now willing to add capacity whereas NAND, 3D NAND is not ready for non-Samsung [dies]. So what is your long-term strategy to counter this memory price appreciation?

Tim Stonesifer: Yes. So I can’t give you a breakdown on what the overall costs are. But DRAM has a significant impact, particularly on our server business. So as you look at what other companies are saying from a commodity pricing pressure, because we’re sort of all in the same boat; I would just keep in mind that I think that we are impacted a little bit more given the fact that we have such a heavy server component to our portfolio.

From a longer-term perspective, to your point from what we see, now we were able to offset some of that pressure in Q1. So you didn’t see a full margin flow-through in Q1. Because we had bought some back in the fourth quarter of last year. But going forward, we would expect to see pressure. Now if you look at the suppliers, it depends on how quickly they can bring on capacity or whether they even will bring on capacity. So we’re looking at doing some more things around strategic buys. We’re looking at things like changing payment terms. Maybe we give them more favorable terms and use our balance sheet versus their balance sheet.

But I think it’s going to be a challenge for the marketplace. Because everybody is sort of in the same boat. And my question would really be on the capacity front. Why wouldn’t you bring on some more capacity? The question is how long will that take? But it will be a pressure point going-- if you look at the next two or three quarters. I will certainly be.

Now again, similar to everyone else, we’ve priced for it. Or we’ve gone out with price increases. We can’t increase our prices to cover the full thing on day one. But we’ve gone out with some price increases. And it will really be a matter of how the market responds, and more importantly, how our competitors respond.
Katy Huberty: We have time for one more question. In back?

Unidentified Audience Member: Just at a high level, you guys have a lot of inorganic things happening. But at the end of the day, remain co will be an operating business that has primarily EG and the underlying businesses within that don't seem to be in a lot of good health. I mean Intel has talked about enterprise being down for as far as they can see. And your competitor like Cisco has had switching and routing declining for a long time. And within your guys' kiosk business, that's been a declining business for a long time. So I guess how do you think about what you measure success in the remain co operating business? How do you kind of quantify what you think success is for that? And to maybe dovetail on the earlier question; how do you think about the way to maximize value? Because it seems like within the stock the value has been more embedded-- has been more attributed to your inorganic activity than what is fundamentally the operating portion of the business.

Tim Stonesifer: Yes. I mean I think for us, I think success is we can continue to generate a healthy cash flow. So again, when you look at that remain co balance of $2.1 billion to $2.4 billion, I think we can certainly do that. I do think we can grow. We can get some growth if we do the things I talked about. We need to fix the core ISS. We need to invest in the higher-growth areas like we've done, and stabilize TS. If we do those three things, we should not only get a little bit of revenue growth, we should also be able to get a bit of a margin lift.

So I think longer-term, as we talked about at SAM, we'll get a bit of a lift because ES will no longer be part of the portfolio. But going forward, I could see another point or two of margin expansion, which will obviously continue to help the free cash flow generation.

So to me, it's really, hey, the marketplace is tough. There's no doubt about it. Competition is tough. Those factors don't really change. And that's kind of what we get paid for is to make sure, is to figure out how do we execute in that environment, and fulfill those expectations that we've laid out. But I feel good about the team we have in place. I think that the execution issues we had in Q1-- because we did have execution issues-- we've got some game plans around that. And we need to just go out and fix it.

Katy Huberty: Good. Thanks for the question. That was a good place to end, wraps up the strategy. Thank you so much for you time.

Tim Stonesifer: Well, thank you for having me. It's a pleasure. Thanks for taking the time.