

Hewlett Packard Enterprise

Second Quarter 2016 Earnings Conference Call

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CORPORATE PARTICIPANTS

Meg Whitman - *President and Chief Executive Officer*

Tim Stonesifer - *Executive Vice President and Chief Financial Officer*

Mike Lawrie - *Chairman and Chief Executive Officer of CSC*

Andrew Simanek - *Head of Investor Relations*

PRESENTATION

Operator

Good afternoon, and welcome to the Second Quarter 2016 Hewlett Packard Enterprise's Earnings Conference Call. My name is Amy and I'll be your conference moderator for today's call. At this time, all participants will be in listen-only mode. We will be facilitating a question and answer session towards the end of the conference. Should you need assistance during the call, please signal a conference specialist by pressing the "*" key followed by "0." As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today's call, Mr. Andrew Simanek, Head of Investor Relations. Please proceed.

Andrew Simanek

Good afternoon. I'm Andy Simanek, Head of Investor Relations for Hewlett Packard Enterprise and I'd like to welcome you to our fiscal 2016 second quarter earnings conference call with Meg Whitman, HPE's President and Chief Executive Officer; Tim Stonesifer, HPE's Executive Vice President and Chief Financial Officer; and joining later Mike Lawrie, Chairman and Chief Executive Officer of CSC.

Before handing the call over to Meg, let me remind you that this call is being webcast. A replay of the webcast will be made available shortly after the call for approximately one year. We posted the press releases and the slide presentations accompanying today's earnings release on our HPE Investor Relations webpage at www.hpe.com. As always, elements of this presentation 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 the earnings and transaction materials relating to forward-looking statements that involve risks, uncertainties and assumptions. For a discussion of some these of risks, uncertainties and assumptions please refer to HPE's SEC reports, including its most recent Form 10-K. HPE assumes no obligation and does not intend to update any such forward-looking statements.

We also note that the financial information discussed on this call reflects estimates based on information available at this time and could differ materially from the amounts ultimately reported in HPE's quarterly report on Form 10-Q for the fiscal quarter ended April 30, 2016. Finally, for financial information that has been expressed on a non-GAAP basis, we have included reconciliations to the comparable GAAP information. Please refer to the tables and slide presentation accompanying today's earnings release.

With that, let me turn it over to Meg.

Meg Whitman

Thanks Andy, and thank you to everyone on the call for joining us today.

Hewlett Packard Enterprise completed our second full quarter as an independent company, and I have to say that we've delivered the best performance since I joined.

In Q2, we saw our first quarter of "as reported" year-over-year revenue growth since 2011 for the HPE businesses. We also saw our fourth consecutive quarter of year-over-year constant currency revenue growth. We delivered revenue of \$12.7 billion, up more than 1% as reported and 5% in constant currency, driven by excellent performance in servers, storage, networking, and converged infrastructure, as well as outstanding performance in Enterprise Services.

Enterprise Group had a fabulous quarter, delivering 7 percent revenue growth on an as reported basis and 10 percent in constant currency. In fact, we grew on an as reported basis in every one of EG's hardware business units and in every region.

ES grew revenue year over year in constant currency for the second consecutive quarter and expanded operating margins more than three points over the prior year. That's the eighth consecutive quarter of year-over-year margin expansion.

Our Software business also delivered a strong quarter. When adjusted for divestitures and acquisitions, Software delivered its third consecutive quarter of constant currency growth.

And, in Financial Services, we saw double digit volume growth over the prior year.

So, with strong performance across every one of our business segments, HPE delivered non-GAAP EPS of \$0.42, at the high end of our previously provided outlook.

Free cash flow improved in the second quarter to \$511M due to careful management of our working capital. Tim will walk through the drivers of our cash flow and outlook shortly.

And, we are seeing the benefits of our increased R&D and more focused product roadmaps as we take share from our competitors. In Storage, HPE is the only major vendor to gain share in external disk over the last two years while EMC, NetApp, IBM, and Dell lost share year-over-year. Revenue in our 3PAR All-Flash business grew nearly triple digits – about 2 times faster than the market, and is once again expected to be larger and faster growing than Pure.

In Networking, we are seeing an acceleration of our business, particularly since our acquisition of Aruba and our game-changing partnership with Unisplendour, a subsidiary of Tsinghua, in China. And, our results are in stark contrast with the results Cisco reported last week. In switching, HPE grew 18% y/y versus Cisco that was down 3%. And, we are getting credit from the industry for our innovation - capturing the leading position in Gartner's most recent Magic Quadrant for Wired/Wireless, upsetting Cisco's long-standing run in the top spot – that is in addition to our leading positions in Servers, Storage and Integrated Systems.

And, we are not taking our foot off the pedal. Next month, at Discover Las Vegas, you'll be hearing more about some significant new innovations across our cloud, IoT and composable infrastructure product lines – as well as an update on the Machine.

Last, but certainly not least, earlier today we made a major announcement that we are planning a tax-free spin-off and merger of our Enterprise Services business with CSC, which is expected to create a pure-play, global IT services powerhouse with annual revenue of more than \$26 billion. The new company will have more than 5,000 customers in 70 countries and employees in every region around the world.

The transaction is expected to deliver approximately \$8.5 billion to HPE's shareholders on an after-tax basis. This includes an equity stake in the newly combined company valued at more than \$4.5 billion, which represents approximately 50 percent ownership, a cash dividend of \$1.5 billion, and the assumption of \$2.5 billion of debt and other liabilities. We also expect the merger of the two businesses to produce first-year synergies of approximately \$1 billion post-close, with a run rate of \$1.5 billion by the end of year one. There is also an opportunity for additional synergies in subsequent years. As owners of approximately 50 percent of the merged company, HPE shareholders will share in the value of the synergies, as well as future growth in earnings. The cost to separate ES from HPE will be offset by lower costs associated with previously announced fiscal year 2015 restructuring program. So, there are no incremental one-time cash payments beyond what we've already communicated.

I will serve on the board of the new company and HPE's Board of Directors will nominate half of the new company's board. Mike LAURIE, the current head of CSC, will become Chairman and CEO of the new company and Mike Nefkens, the current EVP and GM of our Enterprise Services business, will be a key part of the new company's executive team and partner closely with Mike LAURIE on building the new organization. Other executives and directors, as well as the name of the company, will be announced at a later date.

The transaction is currently targeted to be completed by March 31, 2017.

For the combined CSC and Enterprise Services, this will create a new company that will be a pure-play, global IT services leader. For customers, this means global access to world-class offerings in cloud, mobility, application development and modernization, business process services, IT services, big data and analytics, and security. This is combined with deep industry experience in sectors that include Financial Services, Transportation, Consumer Products, Healthcare, and Insurance. HPE and this new company will be closely connected moving forward, with agreements that will keep the two companies aligned for current customers and grow new business opportunities over time.

For the remaining Hewlett Packard Enterprise, this transaction creates significant incremental value, by unlocking a faster growing, higher margin and stronger free cash flow business. HPE will now have \$33 billion in annual revenue and will focus on secure, next-generation, software-defined infrastructure that leverages a world-class portfolio of servers, storage, networking,

converged infrastructure, as well as our Helion Cloud Platform and software assets. By bringing together leadership positions in these key data center technologies, we will help customers run their traditional IT better, while building a bridge to multi-cloud environments.

Beyond the data center, HPE is redefining IT at the edge with our next generation of Aruba and computing products for campus, branch and IoT applications. In addition, through our Technology Services division, we can deliver consulting and support to customers, while HPE Financial Services offers financial flexibility to customers to maximize their investments. Finally, we will continue to leverage our portfolio of operations, security and big data software assets that deliver machine learning and deep analytics capabilities to customers.

Mike LAURIE has joined our call today and will have much more to say about the deal in a moment. But first, Tim is going to walk us through HPE's financial performance in detail.

Tim...

Tim Stonesifer

Thanks Meg

Overall we had a great quarter. We grew revenue "as-reported" and in constant currency, generated healthy cash flow, and delivered non-GAAP diluted net EPS at the high end of our guided range.

Revenue of \$12.7B was up 1.3% y/y and grew 4.9% in constant currency, our fourth consecutive quarter of constant currency growth and, as Meg mentioned, HPE businesses reported absolute revenue growth for the first time in five years. We saw revenue growth in constant currency in every region and outright growth in the Americas and APJ. Our Americas' performance continues to support cautious optimism for the remainder of the year, amongst an uneven macro-economic environment. In EMEA, we were still significantly impacted by currency, however we are seeing encouraging momentum in enterprise hardware. And in APJ, China networking drove strong performance.

The topline currency impact to revenue was 4pts Y/Y, primarily due to hedging gains from the prior year. Going forward, we expect the currency impact to significantly moderate throughout the second half of the year. And we continue to anticipate an impact to revenue of approximately 3pts for the full year, as rates are now roughly in-line with where they were when we originally guided the year.

Margins were largely stable in the quarter, with gross margin of 28.7%, up 10bps y/y and 30bps sequentially. And, Non-GAAP operating profit margin was 7.9%, down 50bps y/y and 20bps sequentially. Total Non-GAAP operating expenses of \$2.6B were up 4.7% Y/Y primarily due to increased FSC and R&D investments.

We delivered non-GAAP diluted net earnings per share of \$0.42, at the high end of our guided range. This primarily excludes \$201M for amortization of intangible assets, \$161M for restructuring, and \$91M of separation charges. We delivered GAAP diluted net earnings per share of \$0.18, \$0.01 above our previously guided range.

Now, turning to the business results...

The Enterprise Group had a strong quarter with excellent top line performance. Our sales motion is hitting its stride aided by the seamless launch of the HPE brand and our marketing efforts. Revenue was up 7% Y/Y or 10% in constant currency and grew in all product groups. For the remainder of the year, revenue growth will likely moderate as we will not have the benefit of H3C and begin to face tougher compares. Profitability in the quarter was 11.7% down 240bps Y/Y. This was primarily due to foreign exchange, heavier Tier 1 mix, and, to a lesser degree, incremental R&D investments.

A deal that exemplifies the strength of the Enterprise Group is a recently won project with Woolworths Limited, Australia's largest retail company. Our solution, based on the Converged System 900 for SAP HANA, provides access to real-time data, enabling critical business decisions to be made immediately. This competitive win against Lenovo, Fujitsu, and Dimension Data with Cisco UCS also displaces the current outsource provider Wipro, and further secures HPE's relationship with Woolworths.

Servers revenue grew 7% Y/Y or 10% in constant currency, primarily driven by strong tier 1 sales in the Americas and core servers in APJ. Based on our performance, we believe we took share in servers overall, density optimized servers, and rack. From a regional perspective we took share in the Americas and EMEA. And, this quarter we started shipping our Hyper Converged HC380, which enables mid-sized and remote office enterprises to easily deploy, manage and support virtual machines in a few clicks. We continue to see servers as a growth driver given the strength of our portfolio and anticipate healthy demand for compute through the remainder of the year.

In Storage we grew revenue 2% Y/Y and 5% in constant currency. Converged storage continued its strong growth trend, growing 19% Y/Y in constant currency and comprising 54% of the total portfolio. 3PAR All Flash revenue grew near triple digits and continues to drive mid-range share gains. We estimate that we gained market share in external disk for the 10th consecutive quarter and expect Storage to gain share throughout the remainder of the year on the strength of the 3PAR portfolio and new logo wins as we take advantage of the uncertainty surrounding the Dell/EMC merger.

Networking revenue grew 57% Y/Y as reported or 62% in constant currency, and when adjusted for Aruba, networking was still up 17% in constant currency. We had strong execution with growth across all regions. While Aruba continues to drive growth in wireless share, we also expect to take share in switching and routing, on the strength of H3C and Aruba campus

switching pull through. Leading up to the transaction close with Tsinghua, H3C grew more than 50% Y/Y, validating the strategic moves we made to collaborate with a strong local partner.

In Technology Services, revenue did decline 6% Y/Y or 2% in constant currency, however was only down 1% in constant currency when adjusted for the discontinuation of HP Inc. attach, which remains in the FY15 results. TS Support, the most profitable and largest segment of Technology Services, grew orders in constant currency. Based on this and the order growth we saw last year, we continue to expect TS revenue to return to growth in constant currency towards the end of the year.

Enterprise Services' had another great quarter as we continue to see the benefits of our restructuring cost actions and improving sales motion.

A great example of the deals we are winning is our recent selection from five other competitors for a 10-year, half billion dollar contract to provide IT services, including infrastructure, mission critical systems, and applications to the U.S. Strategic Command.

Revenue declined 2% Y/Y but grew 1% in constant currency. When adjusted for the Deutsche Bank win last year, both new business TCV and total TCV grew Y/Y. Strategic Enterprise Services is gaining strength in both overall revenue and mix, delivering mid double digit growth Y/Y. ABS continues to improve with the third consecutive quarter of Y/Y constant currency revenue growth. And, ITO also grew in constant currency, the first time since Q1'12.

Operating profit improved 310bps Y/Y to 6.7% as the team continues to execute productivity improvements in delivery and sales. We are also seeing the benefits from improving location mix as well as increasing "sold-margins" and healthy add on sales. We continue to track well against our longer-term goal of 60/40 low cost/high cost headcount mix and completed the quarter with 47% of our headcount in low cost centers.

The progress made on cost improvements, sales strength, and normal quarterly seasonality provides us with confidence that operating profit margins for the full year will now be towards the high-end of our original 6-7% outlook.

Software declined 13% Y/Y as reported or 10% in constant currency. However, it was up 2% in constant currency when adjusted for acquisitions and divestitures. Sales strength in security and big data was partly offset by declines in IT Management. On a product level, we had encouraging results in Voltage, Fortify, and IDOL. The team continues to focus on disciplined cost controls, decreasing OPEX \$ Y/Y and growing operating profit dollars. Operating profit margin expanded 7pts Y/Y, however the largest contributor to OPEX and margin improvement was a one-time benefit from the TippingPoint divestiture.

HPE Financial Services revenue declined 2% Y/Y but grew 1% in constant currency. Operating profit declined 130bps Y/Y to 9.3% as lower residual sales pressured margin rates. Financing volume grew 15% Y/Y or 19% in constant currency, primarily due to favorable movement in our

cost of funds which has enabled us to price more competitively. Return on equity was down 230bps Y/Y to 12.7%.

Cash Flow was strong in the quarter due to judicious working capital management. Cash flow from operations was \$1.1B, up 101% Y/Y on an adjusted basis. Free cash flow was \$511M, up from -\$106M last year, again on an adjusted basis. When adjusted for the sale of H3C, the cash conversion cycle was 27 days, down 4 days Q/Q. The largest contributor to cash conversion cycle improvement was DPO which increased 5 days sequentially, adjusted for H3C, as we continue to improve payment terms with our vendors. This was partly offset by DSO which increased 2 days sequentially, while DOI was flat through the quarter. Given the momentum in our working capital initiatives we now expect our cash conversion cycle will reach the low 20 day range by the year end.

Now let's turn to Capital Allocation. In the quarter we returned \$109M of cash to shareholders. Due to the ES/CSC transaction we were largely prohibited from repurchasing shares, and only bought back \$15M of shares. We also paid \$94M as part of our normal dividend. We continue to see our shares as very attractively priced and will be back in the market this month. Along those lines, our board of directors recently increased our share repurchase authorization by \$3B which now stands at \$4.8B remaining.

During our Q1 earnings call we committed approximately \$2B of the proceeds from the H3C transaction to share repurchases. We now expect to complete roughly half of those this fiscal year, with the remainder to be completed in FY17. As you'll recall, share repurchases resulting from the H3C transaction are in addition to our commitment to return 100% of our original FY16 FCF outlook to shareholders.

Now I would like to provide an update on recent M&A activity.

First, we announced the sale of our majority stake in Mphasis to Blackstone as we continue to refine our capital strategy and make improvements to our go to market model. We expect this transaction to close in the fourth quarter of this year.

In addition, during the quarter we closed the sale of 51% of H3C to Tsinghua in the beginning of May. Remember that our prior guidance did not include the impact of this transaction. We now think that we can offset the EPS impact with the share repurchases we completed in the first quarter and the incremental share repurchases to be completed later this year. Going forward, we will recognize only 49% of H3C earnings and receive a corresponding cash payment. This will reduce cash flow by approximately \$200M in the second half of FY16, however roughly half of that will be received as a cash payment in FY17.

Finally I would like to discuss the cash impact of the ES/CSC transaction to HPE. There will be no incremental one-time uses of cash beyond what we've already communicated. We expect total one-time separation payments of around \$900M, with \$300M in FY16 and the remainder in FY17. As an offset, we will reduce the \$2.6B of restructuring payments associated with our

2015 restructuring plan by roughly \$1B as we are achieving our targeted savings more efficiently and will no longer need to fund ES actions after the transaction closes. We have gained valuable experience in the HPE/HPI separation that gives us confidence in executing the spin quickly and efficiently.

In total, the FY16 free cash flow will be reduced by \$300M due to the H3C divestiture and current year ES separation payments that will be partly offset by working capital improvements.

With that mind...

We expect non-GAAP diluted net earnings per share to be \$0.42 to \$0.46 in Q3 2016, and continue to expect full-year fiscal 2016 non-GAAP diluted net earnings per share of \$1.85 to \$1.95. We expect GAAP diluted net earnings per share to be \$1.10 to \$1.14 in Q3 2016, and now expect full-year fiscal 2016 GAAP diluted net earnings per share of \$1.68 to \$1.78, reflecting the new ES separation charges and gain on sale of H3C. And, we now expect full-year fiscal 2016 Free Cash Flow of \$1.7B to \$1.9B.

With that I will turn it back over to Meg.

Meg Whitman

Thanks, Tim.

Now, I'd like to go into more detail on the deal we announced today with CSC, which I think will be very beneficial to customers, employees and shareholders of both companies.

As today's results confirm, Enterprise Service is a stronger and more robust business than it has been in many years. As a result of customer diversification efforts and other improvements, ES delivered stable constant currency revenue for the first two quarters of fiscal 2016, which were the first quarters of year-over-year constant currency revenue growth since fiscal 2012. Overall, ES is on track to achieve its long-term goal of a market competitive cost structure and operating margins.

So, by bringing together the best of these two organizations, we will create a pure-play services leader ready to compete and win against all the current players. The new company will have greater agility, focus and the ability to drive faster outcomes for our customers. It will also have a top-notch management team... quite literally the best in the business. And, that management team will be 100 percent focused on ensuring a smooth transition with no disruption for ES and CSC customers.

With that, let me turn it over to Mike LAURIE. Mike and I have gotten to know each other quite well, and I can tell you he is a world-class CEO with incredible talent and unbridled passion for his business. Once the deal closes, I look forward to working with him to build our new company.

Mike...

Mike Lawrie

Well, thank you, Meg. I'm excited about the great potential this merger brings to our people, to our clients, to our partners, and investors, both at CSC and HPE's Enterprise Services division. And let me tell you why.

Over the past few years, our two organizations have been embarked on critical turnarounds and broad-based transformations. Not everyone is aware of this but Meg and I joined our respective companies within about six months of each other. And I'm pleased to be able to say that in recent years, both our organizations have been on upward trajectories with significant improvements in financial performance and in client satisfaction scores, and the progress has been real and it has been measurable.

Both of our companies separated last year, within a month of one another into more client-focused pure-play entities, aimed at specific markets and core industries. And today's announcement, the coming together of these two organizations is the next logical step, building on their progress to date and significantly accelerating their transformation. The new company will be a global top three leader in IT services, one that's uniquely positioned to lead clients in their digital transformation. Our organizations are highly complementary.

HPE Enterprise Services has a proud legacy and brings focus and agility and the ability to drive faster outcomes for clients, along with a first rate sales organization. CSC brings deep industry expertise, innovation and next-generation technologies and an exceptional partner network among other strengths. And together, as an agile, technology-independent services pure-play, we will be better positioned to innovate and compete and win against both emerging and established players.

We will have substantial scale to serve customers more efficiently and effectively worldwide. We will have a highly competitive cost structure to take advantage of our distinct growth opportunities, resulting in the capital capacity to invest and grow, both organically and inorganically. We will strengthen and grow client relationships that cover more than three quarters of the Fortune 500 with less than 15% overlap across our top accounts. We will leverage a combined portfolio that will include leading solutions in areas like managed security, cloud IP, enterprise applications, and big data and analytics, along with combined BPO leadership in healthcare, in insurance, in banking and capital markets.

But most importantly, this great leap forward in our transformation will enable our people to better innovate to compete and adapt to an ever-changing marketplace. Employees will become part of a very strong and focused global enterprise that is positioned for success, one that enables them to take advantage of the diverse career development and growth opportunities of a larger global enterprise. And as a pure-play services leader, our new company will be able to operate independent of any single hardware provider, establishing the

right partnerships for success. And at the same time, CSC and HPE will have long-term agreements in place to ensure that current customer commitments continue to be met and our relationship will be stronger and our collaboration deeper.

Now before I hand it back to Meg, I'd just like to take a moment to thank the teams at both companies for their hard work and resilience in driving our respective transformations. Through your efforts, we are in a place where we can bring our two great organizations together. That includes our team at CSC and also the HPE Enterprise Services team under Mike Nefkens. And I'm pleased that Mike has agreed to stay with the company in a senior position, reporting to me and that he will be playing a crucial role in helping build and grow our new company. And I'm looking forward to working with Meg as a member of the new company's board.

So, let me just reiterate my excitement about our two organizations coming together to better serve clients around the world and deliver value for our shareholders. We recognize that we are just at the beginning of this process with a lot of work to do. By staying laser-focused and working in the same collaborative spirit that has gotten us to this point, we can get to the finish line faster and in a great position to launch the new company. My colleagues at CSC and I look forward to working with everyone at HPE Enterprise Services.

So, now, let me hand it back to you, Meg.

Meg Whitman

Thank you, Mike. I look forward to a close relationship and what I believe will be a game changing new company in the global IT services market. Mike will stay with us during the Q&A portion of the call.

Now, I'll open it up to questions.

QUESTION AND ANSWER

Operator

We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question, please press "*" then "2." We also request that you only ask one question and one follow up.

Our first question is from Maynard Um at Wells Fargo.

Maynard Um

Hi, thanks Meg. Can you just talk about the remaining portions of your business? It seems it's definitely more transactional. Do you anticipate that we should think about more transactions happening here, whether it's accelerated M&A or spinoffs or sale; how should we think about that? And then I have a follow-up.

Meg Whitman

Well, thanks, Maynard. So we are actually very excited about what would become a standalone Hewlett Packard Enterprise. Our focus is going to be on next-gen software defined infrastructure with a world-class portfolio of servers, storage, networking, converged infrastructure, hyper-converged, Helion, our Helion cloud platform and our Software assets. And you probably have guessed by now that I am now a devotee of focus. And this is going to be a laser-like focused company that as I think you know is higher growth, higher margin with more robust free cash flows. And it's going to be well-capitalized. So we don't necessarily think there is a need for acquisitions. But if we find the right companies, we certainly will move. And let me just recap the kind of acquisitions that have worked well for this company in the past.

Complimentary technologies that we can put through our excellent distribution and support system, so think 3PAR; 3Com; Aruba, all three of those acquisitions have been fantastic for Hewlett Packard Enterprise. And so, we will keep our eyes out for those kinds of acquisitions. Unfortunately, there aren't a lot of those around, but to the extent we see them, we won't hesitate to move. And as Tim said, remember, our capital allocation strategy is returns-based. Right now, we really think there is incredible value in our stock price. And Tim announced we are going to be buying back, using a 100% of our free cash flow, in addition to half of the H3C proceeds. And we just got an increase in authorization of share buyback from our board.

Maynard Um

Great, and then just on the margin outlook for ES and servers, should we be thinking more along the lines of 7% to 9% margins now for the ES business and low teens digits on the server side? Thank you. Sorry, the EG Group. Thanks.

Tim Stonesifer

Yes, sure. I would say on ES, as we talked about, we feel much more comfortable at the 7% range for this year. Again, we have a lot of momentum in that business, a lot of the activities that the team has done through the transformation are starting to see through to the P&L. So 7% to 9% is what we would have; it may be conservative, but again, we need to continue to execute and there is more work to do there. So we're prudent at the 7% to 9%.

On the EG front, margins were down about 240 basis points. That's primarily driven by foreign exchange, some Tier 1 mix and to a lesser degree the R&D investments we've made. We are a little bit heavy in Tier 1 right now. If you recall, we launched the Cloudline product line where we are seeing a lot of momentum; we launched that in the second half of last year. So we are a little bit heavier weighted in Tier 1; we expect that to normalize in the second half. I think margins there will be stable in the near term. And if you look longer term, we may even see some expansion or we would expect to see some expansion, as you think about further growth in Aruba, converged storage and those types of areas.

Meg Whitman

And then, Maynard, don't forget about when we get to March 31st of 2017, the combined company of CSC and our Enterprise Services division, we announced \$1.5 billion of synergies on an ongoing basis, and we are really confident of that. And Mike, I might just ask you to comment on what you think in terms of the synergies of the new company.

Mike Lawrie

Yes. We've taken a pretty deep look at this and have categorized this. So, we feel that we really have got a very actionable plan that we could begin to execute, once we close the transaction at the end of March. so Meg, I think that number is a very strong number.

Andrew Simanek

Great, thank you Maynard. Can we have the next question, please?

Operator

The next question is from Toni Sacconagi at Bernstein.

Toni Sacconagi

Yes, thank you. I have a couple of questions related to services and transaction. The first question is, why now, Meg? The business has a lot of momentum in terms of profit improvement. I understand the \$8.5 billion consideration, but this business is going to earn over a \$1 billion in net income this year, it could be closer to a \$1.3 billion, a \$1.4 billion going forward. So you are ascribing a value of 6.5 to 8 times to that business when operating profit under your previous plan would have been growing pretty healthily. So the question is why now, when you are at the cusp of improvement, and arguably could have gotten paid for that in your stock price and how did you determine the value? And I have a follow-up, please.

Meg Whitman

Yes, sure. So we are actually very pleased with the turnaround that we have executed in Enterprise Services. And I would say the time is right now, because we believe this industry actually will consolidate. And it's better to be on the front end of the consolidation play than the bank end of the consolidation play. And while there is more margin expansion here, we actually think the ability to accelerate the turnaround of ES will happen in the combined entity of CSC and ES. And recall that our shareholders will own 50% of this new entity, so they will be party to that 50% of the synergies, 50% of the operational improvements, 50% of the synergy improvements.

So, in some ways, the shareholders get the best of both worlds. They get to maintain a position in Hewlett Packard Enterprise in a more focused Software defined data center and edge strategy, and they get to ride the upside, half the upside, that they would have gotten had it stayed with us. And my view is the upside will be bigger with CSC and ES together.

The other reason is why now is the business is in a good position, two years ago, we were struggling in this business; we've diversified the revenue; we've taken cost out; revenue has

stabilized; we've developed some new product lines. And I think combined with CSC, it's going to be a powerhouse IT services company.

Toni Sacconagi

And just to follow up along those lines, Meg. So I'm trying to understand what would really be incremental from the merger. So you had outlined 30,000 person headcount reduction as part of your original ES plan and gross savings of \$2.7 billion. And so, I'd like to understand when the deal is consummated, how much of that will have been captured? And then is the \$1.5 billion you are talking about just the continuation of what was already in the plan or is it truly incremental? Because at least by my math, a lot of it doesn't feel like it's incremental, because I don't think you are going to be done with your original restructuring plan by March 31, 2017.

Meg Whitman

So we will not be done with the entire restructuring plan, but we'll be done with a big chunk of it, basically probably, I would say 60% of it, maybe almost 70% of it. And that \$1.5 billion of synergy is incremental. And if things like, between the two companies, 95 datacenters, okay. We definitely do not need 95 datacenters. Multiple offshore locations and delivery centers; we will be able to consolidate delivery centers and leverage our position in India and China and Costa Rica and other places. We will be able to leverage our selling teams that will be able to I think do more in the context of this combined entity. So our estimate is this \$1.5 billion of synergies is completely incremental and we are probably 60% to 70% of the way through the transformation and the cost reduction.

Toni Sacconagi

Thank you.

Andrew Simanek

Great, thank you, Toni. Can we have the next question, please?

Operator

The next question is from Sherri Scribner at Deutsche Bank.

Sherri Scribner

Hi, thanks. I was hoping to get a little more detail on the impact of the H3C divestiture on the second half results. Primarily, is it going to show up in terms of lower revenue in the networking number or should we also see an impact to servers and storage from that divestiture?

Tim Stonesifer

Yes, sure. You'll see that in the second half, it's about \$0.05. We are estimating most of that is from operating profit. There is some stranded costs that we need to take out now that the deal is closed. You will see most of that show up in the networking and a little bit in TS as well.

Sherri Scribner

Okay. But on the revenue side, it will mostly be on the networking?

Tim Stonesifer

Correct.

Sherri Scribner

And then...

Meg Whitman

There won't be much impact at all to servers or storage or converged infrastructure or the Helion cloud platform or our Software or, frankly, ES.

Sherri Scribner

Okay, perfect. And then thinking about the divestiture of the services business, how will you structure your private cloud solutions going forward; will they sit on the HPE side; will they sit on the new business side; and how will you offer those solutions to your customers?

Meg Whitman

Yes. So, the Helion cloud platform as whole will sit on the Hewlett Packard Enterprise side. So for example, private cloud, we are the world's leader in private cloud in our Helion cloud system platform that is built on open stack. And then of course the Software business around CSA and other products in terms of one pane of glass to manage a multi-cloud environment, will sit with Hewlett Packard Enterprise. However, virtual private cloud and managed private cloud is today delivered by ES and in the future will be delivered by CSC ES. And we are going to be working very closely together to make sure that there is a seamless offering in the marketplace when someone wants a private cloud plus VPC or MPC. And then obviously, we have a relationship with Azure, and CSC has relationship with AWS. So the new company will be able to offer both to customers, which I think is going to be a real benefit. And Mike, do you want add anything to that?

Mike Lawrie

I think that's the real benefit, is we are going to be able to provide to our clients a wide range of solutions. I'm anxious to be able to get access to some of the investments that Meg, you and the Company have made over the last couple of years, because you've got some leading solutions and that all can be brought now to our customers through the sales force and the delivery forces that we have as a result of the combined companies.

Andrew Simanek

Great, thank you, Sherri. Can we have the next question, please?

Operator

The next question is from Katy Huberty at Morgan Stanley.

Katy Huberty

Thanks, good afternoon. Tim, can you just clarify, in the free cash flow guidance for this year; should we subtract the \$300 million from the \$2 billion to \$2.2 billion range or do you expect to offset some of that \$300 million hit? And then, what is the normalized free cash flow with all the divestitures in comparison to that \$3.7 billion number that you talked about at the Analyst Day? And then I have a follow-up.

Tim Stonesifer

Yes, sure. So we are reducing the guide from \$2 (billion) to \$2.2 (billion), down to \$1.7 (billion) to \$1.9 (billion), so that is a new guide for the year. And if you think about that, it's really three components. There is \$200 million of pressure from the H3C divestiture, so that does not show up in our free cash flow. There is about \$300 million that are related to the separation cost now for the ES transaction. And then those will be partially offset by working capital improvement. So we continue to see momentum, particularly if you look at extended payment terms, if you look at just being a little bit more disciplined around payment exceptions and things of that nature. So net-net, we will reduce the guide by \$300 million. I think about it as primarily driven by the H3C divestiture. From a normalized perspective, I would say normalized would probably be around maybe 3.5, north of 3.5, 3.8, something like that.

Katy Huberty

Okay. And then, Meg, one of the reasons HP originally purchased EDS was the potential of revenue synergies as that business pulled more HP Systems and Software. As you look to separate those businesses, are there revenue dissynergies that we should now think about? Thanks.

Meg Whitman

No, we don't believe that that will be the case. You are right; one of the predicates of the EDS acquisitions was pull through of our infrastructure business as well as our Software business. And by the way, that has been realized. So we've got a commercial agreement with the new company, CSC ES that will keep those levels of pull-through the same for three years. Now, we hope we will actually be able to do more with CSC because we haven't really had access to their book of business, and they've got a very strong business. And as Mike said, they are interested in our products and Software, and we have to go in and earn that business. But that's one of the things that we intend to do. So, at a very minimum, base line will be maintained and there is an upside in terms of earning more business with CSC.

Andrew Simanek

Great, thank you, Katy. Can we have the next question, please?

Operator

The next question is from Brian Alexander of Raymond James.

Brian Alexander

Hi, thanks. Could you just clarify whether you are still expecting constant currency revenue growth for all of fiscal '16, adjusting for the H3C divestiture? And if so, how do you think the second half will compare to the first half? Thanks.

Tim Stonesifer

Sure, yes. We do still expect to see revenue growth for the total year in constant currency. The one thing that I would say is that the growth rates will be a little bit more normalized, if you will, in the second half. There would be less FX pressure as an example, because again, if you look at the second quarter, most of that FX pressure was driven by the hedge gains that we received in the second quarter of last year that didn't repeat this year. So that will tend to normalize. So we expect to grow, but it will be a little bit more muted, I would say, versus the first half because, again, the compares get a little bit tougher too as well in the second half.

Brian Alexander

Okay, thank you.

Andrew Simanek

Great, thank you, Brian. Can we have the next question, please?

Operator

The next question is from Kulbender Garcha at Credit Suisse.

Kulbender Garcha

Thanks. My question is for Meg. Meg, you mentioned early on that you are a devotee, I think, of focus, and we've seen HPE go from being a \$100 billion business to a \$50 billion business, now a \$33 billion business. My question would be, then why would the remaining assets, do they really belong together, have any thought been given around optimizing the remaining portfolio further? For example, I think most people would understand that you have a reasonably sub-scale Software business; does that really belong with HP Enterprise? Have you thought about pruning it even further going forward or do you think this is really the asset base and technology base that HP Enterprise required to thrive long-term?

Meg Whitman

Yes. So we are happy with the performance of the overall portfolio. You saw the growth in EG, Software grew in constant currency when you normalize for M&A. And when you think about the Software-defined datacenter, I'm really quite happy with the performance of the assets. So obviously over time, we continue to ensure that we've got the right set of assets. Someone earlier on the call asked whether we would do M&A or some divestiture. So we are going to continue to optimize the set of assets that we have, but we are really happy with the current portfolio.

Kulbender Garcha

Thank you.

Andrew Simanek

Great, thank you, Kulbender. Could we have the next question, please?

Operator

The next question is from Rod Hall with J.P. Morgan.

Rod Hall

Yes, hi, guys, thanks for taking my question. I have two. One, I wanted to see if you guys could walk us through that, you said \$4.5 billion of equity values, I think for 50% in the new entity. Can you just walk us through your calculation on that; how you are getting there? And then the second question, I wanted to go back to the synergies question. And ask whether you think there will be any revenue dyssynergy is there overlap in revenues that would create some dyssynergy there that we should be netting against the \$1.5 billion incremental? Thank you.

Meg Whitman

Yes. So I'll get Mike Lawrie to address the revenue dyssynergies. He mentioned that we have a very small overlap of customers, only 15%, but he might talk about that.

Mike Lawrie

Yes, we just don't see that much dyssynergy here. When we went through the top 200 accounts we had less than 15% overlap. So it's really two different customers. And so when we think about it, it makes a lot of sense because many of our losses were HPE's gains and vice versa, although it was mostly losses on our side. So when you think about it, it really is truly a new market opportunity for us, and that's why we don't think there will be many revenue dyssynergies and why there is such an opportunity to expand the business that we are doing together.

Meg Whitman

And then, let me walk you through at a high level of the deal mechanics, and then I'll ask Chris Hsu, who is our Chief Operating Officer, who helped negotiated this deal, to give a bit more detail. So we started out with what is the value of the Enterprise Services asset. And as you saw from the release, the headline value there is \$8.5 billion. Now, we wanted to make sure that we did a 50:50 merger of equals, tax-free spin merge of Enterprise Services into this new entity. And so, obviously, we negotiated some adjustments for that. So first of all, the new company, and I'm calling it for short hand CSC ES, will pay Hewlett Packard Enterprise, the future standalone Hewlett Packard Enterprise, \$1.5 billion of cash, after the deal closes, and we will assume \$2.5 billion of liability, pension liability as well a old EDS \$300 million bond. And then ES or Hewlett Packard Enterprise will actually subsidize some of that pension liability with offshore cash. So Chris, do you want to add any more detail to that?

Chris Hsu

Sure, Meg. Meg, you hit the most of the high points. We started with negotiating, like Meg said, \$8.5 billion. And at the time that we did the value, the equity value of CSC was about \$4.6

billion, and we then developed in order to get the 50:50 merger of equals to make this a tax-free spin under an RMT structure. We then developed a set of upfront considerations that Meg went through, with the cash dividend and then some transfer of liabilities. So that was roughly \$3.9 billion. So the two components of \$3.9 billion of upfront consideration plus \$4.6 billion of equity considerations in CSC stock, essentially makes up the \$8.5 billion in total valuation. Now, the equity considerations that CSC will essentially issue stock at the time of the transaction and that stock will essentially result in the company being 50-50, and price or the total value at the time of the close will depend on where CSC is trading at that point in time.

Andrew Simanek

Perfect. Thank you. Can we have the next question, please?

Operator

The next question is from Steve Milunovich at UBS.

Steve Milunovich

Thank you. I wanted to go back to this question about the pull through, I would think that ES, while some of it is very independent, would have pulled through a fair amount of your EG business, particularly as we move more to cloud. And I would like you to talk a little bit more about the commitments that you have, are you the favored hardware supplier for the new company, and part of the point of being a pure services company is that they are fairly agnostic, and so, do you lose that over time? So it is not obvious to me that you absolutely maintain what you have, and it's just a question of if it gets better. I'm a little worried, obviously, about whether it could get worse. And then conversely, what is getting rid of the services business, or half of it, do for you on the HPE side, what can you do now, that you were not able to do previously?

Meg Whitman

Sure. So, actually, this was a very important part of the deal, because the last thing I wanted to do was combine CSC with ES and then lose the infrastructure pull through. That would not have been a value to Hewlett Packard Enterprise. So we've negotiated a deal that I think is very fair. It allows CSC to continue to work with people they have worked with in the past, but we've also got a commitment from them for the next three years. Beyond that, I am very confident that the work we will do in Hewlett Packard Enterprise will earn our way to that commitment.

Think about our server lineup, our storage lineup, our networking lineup, our wired wireless LAN lineup, our converged infrastructure, hyper converged and Helion cloud platform, but we do have, if you will, a safety net for the next three years. But one of the benefits of a pure-play services company is to be able to work with best of breed. And I know Mike wants to continue to do that. So I think we've struck a good thing that protects us in the near term but gives Mike the flexibility he needs to do solutions that are right for his customers.

On the other side of it is, we do business today with some of ES's competitors, think about Deloitte or Accenture or Capgemini or the Indian players and we want to continue to grow that. And just like for Mike there is a benefit to being a pure play that will be benefit for us in terms of being primarily a Software defined Infrastructure Company and Software Company. So we imagine growing the business with those players as well. And by the way, this interestingly happened with the HPE, HP Inc., split, when HP Inc., became a separate company all of a sudden a lot of competitors who used to think they were competitors to some degree with our company, all of a sudden were very interested in the HP Inc., offering, so we think that could happen to us as well.

Andrew Simanek

Great. Thank you, Steve. Can we have the next question, please?

Operator

The next question is from Amit Daryanani at RBC Capital Markets.

Amit Daryanani

Thanks, good afternoon, guys. Meg, the biggest question we keep getting right now is, what drove the transaction at this point for you guys, and really broadly, as you look at HPE post this transaction and after March 31, what do you think your revenue growth and EPS targets would look like, relative to IT spend over time?

Meg Whitman

Yes. So part of the benefit of this transaction is focus on a smaller number of businesses that I think play into a sweet spot in IT spend. So the objective of standalone HPE will be all about helping customers optimize and modernize their traditional IT spend, which by the way is still 88% of the spend in the marketplace, and transition to a multi-cloud environment and also deploy obviously the Software assets. So we are not giving revenue guidance and EPS guidance for the standalone company, I am certain we will closer to March 31st, but we expect to go at or above the market rate, as we did this quarter.

I think it's important to look at our results this quarter for Enterprise Group and Software, I think they are the best indication that we've got a winning company here. We outgrew the market, we outgrew every single competitor, gained share against our infrastructure competitors. And I think what you have now is the Enterprise Group and Software on a roll. And the investments that we have made in R&D, the investments we've made in a fire in the belly sales force. We have done a transformation of our sales force around not only our channel but also direct selling. And then, if you think about how we've optimized marketing spend over the last couple of years; we are doing better in demand gen, digital, marketing than we've ever done. So I think you've got a little power house in Software defined infrastructure and Software.

Andrew Simanek

Perfect. Thank you, Amit. Can we have the next question, please?

Operator

The next question is from Itia Kidron at Oppenheimer.

Itia Kidron

Thanks. This is Itia. Question for Tim. Tim, I wanted to drill down a little bit into your third quarter guidance, especially on the EPS, which is below the street by about \$0.04. How much of this is the H3C transaction, I think you talked about a \$0.05 loss and is that also the reason you are looking for very fourth quarter-weighted EPS upside? Can you walk us through some of the elements for that variability?

Tim Stonesifer

Sure. So if you take our third quarter guide, we are at the midpoint about \$0.44. The primary delta versus consensus right now is really driven by the H3C transaction to your point, that's probably about say \$0.03 or \$0.04. So that implies a ramp in the fourth quarter and really, think about it in three ways.

One, its typical seasonality, so when you look at our ES business and our Software business, those businesses tends to be back-end loaded, so that will drive a lot of the improvement. The second component is around the H3C transaction from a stranded cost perspective. So now that the deal is closed, there is some overhead costs that we need to take out of the system that generally takes a little bit of time, not too dissimilar to the dissynergy story we had around the separation. And then the third component is driven by the share repurchases. So there is more of an impact in Q4 versus Q3 on the share repurchase front. So those are really the key drivers to the ramp in the fourth quarter. But we've got clear plans For sure, we need to go out and execute, but we feel good about the total year and that's why we held our total year guide of \$1.85 to \$1.95.

Itia Kidron

That's great. And as a follow-up on EG margins for two quarters in a row now, they are down on a year-over-year basis. And I understand that FX is a part of that, but how do we think about the timeline by which we go back towards the 15% range; is that even possible, given the mix of solutions? And maybe, you can walk us through that? When does TS start contributing for this from a growth standpoint, revenue not just margin?

Tim Stonesifer

Sure, I would say from a margin perspective, for sure, FX has been a factor particularly if you look at first half of the year. And that will tend to have less of an impact going forward. We do have a heavy mix of tier one right now. Again, we launched cloud line in the second half of last year. So right now when you look at our total mix from a tier one perspective, it's a little bit heavy. Again, that will tend to normalize.

So I would expect the margins in EG to be stable, and I am not going to give margin guidance here. But, again, as we continue to grow Aruba, as we continue to grow storage that's going to help the margin front.

On the TS front, that business will also stabilize. So we were down in revenue 1% in constant currency when you adjust for HPI transaction. But we do expect revenue growth in the latter part of the year. And the way to think about that is obviously that's an annuity type business given the contracts. So what we are going to start seeing in the second half is that those negative growth orders that we had in '14; that's replaced by positive growth that we saw in '15, that's sees our 2016 revenue. So we do expect TS revenue to be flat on a year-over-year basis for the total year and that will also help from a margin perspective as well.

Itia Kidron

Very good, good luck.

Andrew Simanek

Thank you, Itia. Can we have the next question, please?

Operator

The next question is from Jim Suva at Citi.

Jim Suva

Thank you and congratulations on a lot of work and the big surprise. Regarding the divestiture of H3C, aside just from the pure mechanics of selling 51% and what goes on with the equity transactions and how it accounts financially. From a pure sales perspective, was there an impact in this quarter and impact in the next quarter as far as transactions whether they will be accelerated or deferred or anything we should think about as far as closing the transactions around the H3C transaction?

Meg Whitman

I wouldn't think so, if I'm understanding your question correctly. Remember now, H3C is 51% in China, it's 51% owned by Unisplendour a subsidiary of Tsinghua. So the CEO is a great guy by the name of Tony Yu, who is running the business or we have the Chairman and the CFO. But it's really going to depend on the momentum in that H3C business in the China market. And what I will tell you is the momentum is really good. We had a very good second quarter there, even though the transaction hadn't closed. And I was just in China two weeks ago, and I will tell you Tsinghua is incredibly committed to this. The management team fired up, they feel like they control their own destiny in China. And so, I can't predict what the revenue will do there, but I am feeling really good about our 49% ownership of a business that I think there is a lot of commitment on behalf of Tsinghua and the management team to make successful.

Jim Suva

Okay. And as a follow-up regarding the pull-through of the, I think you mentioned a three-year agreements with CSC, is that just on the HP services that goes to CSC or CSC also with their other existing businesses, having an agreement to refer HP for their products?

Meg Whitman

No, it's really around the Enterprise Group and Software, mostly the Enterprise Group, sells a lot of their products to Enterprise Services in an inter company transfer today. And we want to make sure that that business stays for the next three years, and we have a chance to earn more business. So think about it, it's servers, storage, networking, converged infrastructure, the Helion cloud platform and TS, as well as Software. So that is how the agreement is structured. Does that answer your question?

Jim Suva

Yes, it does. Thank you very much.

Tim Stonesifer

The other thing I would add is they are playing in a \$2.5 billion ITO market today that we do not participate in. So it may even be a growth opportunity for HPE.

Andrew Simanek

Perfect, great. Thank you, Jim. Can we have the next question, please?

Operator

The next question is from Wamsi Mohan at Bank of America Merrill Lynch.

Wamsi Mohan

Yes, thank you. Apart from the separation costs associated with this ES transaction, can you talk about any potential cost dissynergies or stranded costs associated with this deal? And I will follow up.

Tim Stonesifer

Yes, sure. So the overall separation cost will be \$900 million, again \$300 million of that will be incurred in '16 and \$600 (million) of that will be incurred, roughly \$600 (million), will be incurred in '17. Again, there was no incremental one-time cash costs associated with this. We will reduce the 2015 restructuring plans by about \$1 billion and that will offset the cost for here. As far as the stranded cost number, we will work those costs out through the system, I think the good news is what we've learned in the last separation was how to do this and do it efficiently. So I would just say on the stranded cost piece, if I look at project planning and what have you, we have that much more clearly defined, we know who owns it and we know how that's going to come out at the system and when that comes out of the system.

Meg Whitman

Yes, I notice that, I think there is a real benefit to having done one separation. The first time you do it, you get the best advice you can and you learn how to do it. This time we have this

thing down to a science. And so, I think a number of the same people are going to work on this separation, and I am highly confident we are going to be able to work off the stranded cost probably faster than we did in the version 1.0.

Wamsi Mohan

Okay, great. As my follow-up, Tim on normalized free cash flow, given the higher transactional nature of the business post ES, I am a little surprised, you have a fairly tight range of 3.5 to 3.8 if I heard you right. How should we think about the volatility of that number, and then just longer term, normalized CAPEX spend for HPE in a post ES world? Thanks.

Tim Stonesifer

Yes, let me just clarify. The 3.5 to 3.8 that was '16 with ES in it. And so, if you are looking to pull ES out from a normalized perspective, that's not what I was talking about. I was talking about our current guide with current separation, current restructuring what have you. In general, if you strip out ES, I think about obviously ES has more CAPEX than the other businesses from a normalized CAPEX perspective. I think you could see our CAPEX go down by \$500 (million) or \$600 million, that's what we typically use for ES. So that's how I think about it from a normalized perspective. Again, we will give some more color when we do SAM in October, but I think CAPEX is a big driver.

Meg Whitman

As I said, I think what we are doing by the announcements we made today is unlocking the value of these two companies. And remember EG, plus Software, plus our financial services business is a faster growing, higher margin, more robust free cash flow business. And I think now that with a super focused mission we are going to see some real benefits there. And then, obviously by consolidating CSC with ES, I think we are going to get real cost synergies there.

Tim Stonesifer

Thank you.

Andrew Simanek

Great. Thank you. I think we have time for one more question, please.

Operator

The next question is from Simona Jankowski at Goldman Sachs.

Simona Jankowski

Hi, thank you very much. Maybe just the last question then on the fundamentals that you are seeing out there, it sounded like you attribute the strong performance in EG mostly to share gains, but can you also comment on the demand environment? And then just relative to those share gains, you touched a little bit on what drove that, such as retooling the sales force et cetera. Can you just comment in a little bit more detail on any other factors driving your

success there, whether it's related to solution selling or pricing or products anything of that nature? Thank you.

Meg Whitman

Sure. So listen, it is an uneven macroeconomic environment, I think Tim said that at first. And so, different countries go up and down, different regions. But overall, I think we feel very comfortable with our position in the traditional IT market and then in our ability to provide solutions in a multi-cloud environment. So I think demands can go up and down, but our objective is in whatever the market is doing, we want to make sure we at least hold our gain share and we did that in the last quarter.

I don't think there is anything new to add as to why. First of all, I think the R&D investments that we've made over the last four years are paying off. So the development cycle in servers, storage, networking, those kinds of things, hyper converge, these are long term investments, what you started three years ago actually comes to market now or even next year. So, that investment in R&D is paying off. And I would tell you a dollar spent on internal R&D is the best dollar we spend at HPE, it's fantastic.

Second is, when you retool a sales force that takes some time as well. And I would say we are much farther along that we have been and there is more work to do. And then, as I said, marketing, we've retooled on our entire demand generation, and by the way, the launch of Hewlett Packard Enterprise gave us a chance to tell people the story of the enterprise side of this business, because prior to that if you had asked man on the street what is HP, they would say printing and PC company. So I think that's actually been beneficial. And then, turnarounds take five years, I said it when I started and we are rounding the bend into the end of the fifth year. And so, it's gratifying that we saw as reported growth for the first time in five years.

Simona Jankowski

Thank you.

Andrew Simanek

Great. Thank you, Simona. I think that wraps up today's call.

CONCLUSION

Meg Whitman

Thank you very much.

Tim Stonesifer

Thank you.

Operator

Ladies and gentlemen, this concludes our call for today. Thank you.