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61 Broadway – Suite 1400 – New York, NY 10006
Phone: 212-346-6666 ◆ Fax: 888-412-3655

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MALE VOICE 1: Ladies and gentlemen, please welcome head of investor relations, Andy Simanek.

MR. ANDY SIMANEK: Good afternoon, everyone, and thank you for joining us today. So I'd like to welcome to the Hewlett Packard Enterprise 2016 Securities Analyst meeting. So before we get started, I just want to cover some logistics items and take you through the agenda. So in a few moments, Meg will be on stage and discuss the evolution of Hewlett Packard Enterprise. She'll talk about the spin merge of enterprise services with CSC and then also our software business with Micro Focus, and then most importantly she'll talk about the future of Hewlett Packard Enterprise. After Meg, we'll go over the spin merge transactions in a little bit more detail. We'll have Mike Nefkens present enterprise services, and then Chris Hsu will cover software.

Then we'll shift focus and focus on the future of HPE. We'll have Antonio Neri come up and update you on the enterprise group, which will be followed by a roundtable discussion with members of his staff. So that should take us 'til about 3:00 or so. We'll then break for about 30 minutes, reconvene here at 3:30, at which time our CFO Tim Stonesifer will come on stage for the financial overview and provide our outlook for fiscal year '17. Then to wrap up, we'll have a management Q&A session with Meg, Tim, Mike, Antonio and Chris, and we should finish up then around 4:45, at which point we'll have a reception with some light refreshments, and we'd love to have you join us before you depart.

So as far as materials in front of you, you should have an agenda as well as the bios for each one of our presenters. We will publish each speaker's materials as they present, except for Tim's, so we'll post that immediately following his presentation. And all the materials will be available on our Investor Relations website at HPE.com/investors/SAM2016. And also let me remind you that this meeting is being webcast live. Replay will be available shortly after and will be on our Investor Relations website for approximately one year. And lastly, my favorite part of all investor events is the disclosures. So this event may include forward-looking statements involving risks, estimates, and assumptions. HPE assumes no obligation to update such statements. Please find more details regarding forward-looking statements in your printed handout on the presentation accompanying this webcast. So with that, I'd like to welcome on stage Meg Whitman, our president and chief executive officer.

MS. MEG WHITMAN: Thank you, thank you. Well good afternoon, and welcome to HPE Security Analyst meeting. And we're happy you could join us here today in San Francisco and those of you who are watching over the web. Now a lot has happened since we met last year, and we're looking forward to bringing you up to speed on all that has been going on and of course answer your questions. So here's what I thought I would cover today. First, I want to step back and briefly remind you of the journey that we've been on over the past five years. Second, I'll highlight the progress that we have made, and third, I want to outline our strategy and our market focus for the future of Hewlett Packard Enterprise. So let's get underway.

I know we have talked about this before, but I think it's an important starting point to remember. As you might recall in 2011, HP was in a relatively weak position. We had major internal and external challenges. There were significant shifts happening across all our major lines of business, driven by cloud, the rise of mobile, the explosion of data, and the associated security risks. Our portfolio was heavily weighted towards low-growth assets across the technology stack. Revenues and profit pools for our most profitable businesses were declining. And we faced multiple challenges in execution, whether it was our competitive focus, our go-to-market, or underinvestment in R&D. Our cost structure was not aligned to our revenue performance, and we had a weakened balance sheet. We also had uneven earnings performance, including a couple of missed quarters. And let's not forget that I was the third CEO in as many years. And there had also been a fair amount of churn and drama at the board level as well as at the company level.

And the result of all this was that our customers, our partners, and to some degree even our employees were starting to lose confidence in the company. So in 2012, we embarked on a five-year journey to turn the company around and create value for shareholders, for customers, and for partners. And many of you may remember this slide from our security analysts meeting in the fall of 2012. And you might recall that the first step was to accurately diagnose the problems that were facing the company and begin to build a solid foundation on which to base the turnaround. So what we did first was stabilize leadership, and we went back to the core founding values of this company. And many of you may have heard me say this, but I think it is very, very difficult to kill founder DNA. And that turned out to be a good thing for HP, because the founding DNA at this company was a deep commitment to innovation and to customer and partner success. So while we focused on doing more of those things really well, we also made a list of the things that we needed to fix.

So with FY13, we were all about fixing and rebuilding the business. We focused on improving our operations, driving better cash flow, and repairing our balance sheet. And these improvements were absolutely essential to moving Hewlett Packard forward. In FY14, we focused on recovery and expansion. We stabilized our revenue trajectory, we reignited the innovation engine across HP, and further strengthened our leadership in some key areas, setting up HP for long-term growth.

FY15 was all about accelerating that progress. We continued to target investments in high-growth opportunities and further improved our execution. We also saw an opportunity to fuel the acceleration of our business through key acquisitions like Aruba. And by the end of fiscal year 2015, we had made tremendous progress. We'd reignited our innovation engine with increased R&D and new offerings like all-flash storage, Apollo high performance compute, Helion, 3D print, Sprout, and EliteBook. We also had transformed our go-to-market and aligned our sales motions to meet the industry-changing dynamics and very significantly changed customer buying behaviors. We had improved our cost structure by reengineering business processes and increasing automation and productivity.

And one of the big focus areas was to strengthen our balance sheet and to improve our cash flow. And the results were dramatic, with a 23-day reduction in our cash conversion cycle, and we improved our net debt position by $14.8 billion. Today we have $5.3 billion of net cash at the operating company. We also saw revenue stabilize and begin to grow. And I think we regained the trust and confidence of our partners, our customers, and our employees. And we started to regain our trust with you as well, in part because every quarter we did what we said we would do.

Now during FY15, and while we were doing all this work, we also saw our industry continue to change at lightning speed. And what became very clear was that the future was going to belong to the fast. And so on the first day of FY 2016, we separated HP into two new companies, HP Inc. and Hewlett Packard Enterprise, so both companies could move faster and have a deeper focus on the unique markets in which each company plays.

So let's take a moment to talk about the success of this separation. Both companies now have the independence, the focus, the financial resources, and the flexibility to respond to the constantly evolving market while generating long-term value for shareholders. And one proof point of that today is that the combined company stock price has increased more than 200% since the low of 2012. And since November 2nd of 2015, the combined stock price has increased 25%, and HPE is up 47%.

Let me give you another example. HPI recently announced the intention to acquire Samsung's printing business for about $1 billon. I can tell you with 100% certainty that had we still been together as one company, we never would have made that level investment for our printing business. We would have used the cash differently because there were so many different priorities within the big HP. But now HP can focus on its own unique investment needs, allocating capital with different priorities with more degrees of freedom. And the acquisition of Samsung's printing business is exactly the right thing for that company to do.

And I'll tell you just from a CEO perspective, I now have the power of focus. Since the separation, I've met with over 600 customers and partners on a much narrower set of businesses. I used to go from meetings about the Superdome X to laser jet printers to PCs. And now I can dive deep into the products, the issues, and help hone the strategy, so I can tell you with certainty that separating the company was the right thing to do for our customers, our partners, our employees, and our shareholders.

But during FY15, the industry shifts continued to reshape enterprise IT. The shift of workloads to mobile, to cloud models, the emergence of software-defined architectures, an explosion of data which requires the need for more storage and more analytics, the move to mobile continues to progress, the advent of IoT, the continuing to shift to solution-selling from point products, and growth in IT consumption models.

As we embraced these changes in the market, we formed three core beliefs. And our first core belief is the world will in fact be hybrid. We know some of our customer applications will stay locked down in their data center, untouched by anyone but their employees. Some applications will be on a private cloud, on premise, to give the economics of public cloud and the control and optimization that those customers want. Some applications will be in a managed environment, like a Workday or a Salesforce. And some applications will live in the public cloud. But the belief is the world will be hybrid, and it is what our customers are telling us every single day. Our second core belief is that the emergence of the intelligent edge is going to unleash an industrial Internet of Things revolution. And this revolution will have an enormous impact on everything from manufacturing and transportation to healthcare and education. And our third core belief is that technology services are going to be critical. Customers are looking to implement these solutions to support these market trends.

So these core beliefs support our vision that I articulated when we launched Hewlett Packard Enterprise last November, which was to be the industry-leading provider of hybrid IT built on the secure next-generation software-defined infrastructure that will run our customers' data centers today, bridge them to multi-cloud environments tomorrow, and power the emerging intelligent edge that will run campus, branch, and industrial IoT applications for decades to come, all delivered through a world-class services capability.

Now our strategy is aligned directly to that vision. First, the world is going to be hybrid, and our strategy is to make hybrid IT simple. And we do that through our offerings in the traditional data center, the software-defined infrastructure that we offer, systems software, private cloud, and through our public cloud partnerships. Second, we power the intelligent edge through our offerings in campus and branch via our Aruba products, and the industrial Internet of Things with products like our Edgeline converged systems. I like to say we want to be the IT in IoT.

Third, services is going to be more critical than ever, and we have the expertise to make it happen and can accelerate our customers' journey through our 22,000 technology services professionals. We can build customer solutions from the ground up and deliver world-class support, advisory, and consumption models. We also have our financial services organization, and this is strategically important to our customers as they increasingly look for the financial flexibility they need and consumption-based pricing models. So to realize our vision and implement our strategy, we spent much of FY16 looking at our portfolio and our product roadmaps to determine where we needed to make organic investments, what partnerships were going to be necessary, what targeted acquisitions we needed to make, and where we needed to optimize our portfolio.

So let's start with organic investments. We have filled many holes in our portfolio through organic investments. One example is our next generation of software-defined, which is a product that we call HPE Synergy. This is a brand new category that we've created called Composable Infrastructure. We also introduced our hyper-converged system, the HC 380. This went from idea to product in record time, and the next version is coming out very soon. Both of these are powered by OneView, which is our proprietary stack and remains integral to our software-defined offerings, providing secure, unified control of apps across servers, storage, memory, and processing power.

And last but not least, we're doubling down on Edgeline, which is our converged system for the intelligent edge. And later this year, we will unveil a prototype of our vision from memory-driven computing, a project that you all know that we call The Machine. The Machine project has driven development of key technologies like non-volatile and silicon photonics and will bring key differentiators across our entire product portfolio, beginning in mid-2017.

So now let me give you a few examples of partnerships that have been and will be essential to our future. We recognize that there are impactful innovations for our customers that must come and can come from outside our walls. So with our venture investment and partnership program, what we call Hewlett Packard Pathfinder, this is where we use our deep expertise to curate the best emerging startups and help customers innovate and develop solutions faster. One example is Mesosphere, a data center operating system which enables customers to run modern apps in a hybrid infrastructure. Another is Chef, an infrastructure automation technology that we've integrated into our proactive care service.

In addition, rather than trying to compete head-to-head in public cloud, we understood that HPE was uniquely positioned to help our customers take advantage of multi-cloud solutions such as our partnership with Microsoft Azure. And we've also partnered with Docker and introduced the industry's first Docker-ready servers, which create the flexibility of a true hybrid solution. And we just announced last month a deep partnership with Arista for the software-defined data center networking that focuses on building application workloads for the cloud.

We've also made some targeted acquisitions over time. To give you a sense of the acquisitions that have made this vision possible, I'd like to point to companies like 3PAR and 3Com. We also bought Aruba a little over a year ago, which is our anchor for the intelligent edge. And a few months back, we announced our acquisition of SGI to reinforce and accelerate our position in high-performance computing. High-performance compute is a big part of the market. It's about an $11 billion TAM, growing at 6 to 8% annually. And this is a perfect big data analytics solution for verticals like government, research, energy, and healthcare.

And finally, we identified areas of the business that were not aligned with that go-forward strategy that I described. And here we've looked at how to best maximize shareholder value with these assets. And we've already made a number of decisions, including the sale of TippingPoint, the H3C deal in China, our majority stake in Emphasis, and of course the spin merge of ES with CSC and the spin merge of our software business unit with Micro Focus. All of these moves have helped us focus our go-forward strategy for Hewlett Packard Enterprise, to be more nimble, provide cutting-edge solutions, play in higher growth markets, and have an enhanced financial profile.

So let's step back for a minute and talk about our market opportunity with this more focused strategy. Hewlett Packard has a total addressable market of about $250 billion that's growing at 2 to 3%. Now I know that following the announcements of our enterprise services and our software spin merge, some of you talked about HPE's strategy as doubling down on commodity hardware and questioned our ability to compete against the public cloud. So let me take a moment to address these points directly. Of course public cloud continues to gain traction and is growing rapidly, putting some pressure on our core data center business. But there are three ways to think about how the cloud is impacting HPE. First, we are the leader in IT cloud infrastructure. So public cloud infrastructure helps grow our TAM. But it does put some pressure on our margins. We continue to manage this dynamic through business model evolution and cost structure improvements.

Second, while cloud adoption in some segments is growing quickly, we estimate that today only 10% of infrastructure is sold to public cloud or SAS vendors. And that leaves very attractive segments with higher margins where HPE has leadership positions and growth opportunities, segments like high performance compute, private cloud, all-flash arrays, next generation software-defined networking, and converged infrastructure are all strong. They're strong, and they're growing markets where HPE is very, very well-positioned.

And finally we're seeing lots of customers who get scale in public cloud, but then they are finding that HPE can deliver public cloud economics in a private, on-prem solution that gives them the added benefits of control, customization, and security. Another great opportunity is the intelligent edge. The Aruba acquisition has enabled to address the $23 billion campus and branch market that's growing at 2 to 4% each year, and we are taking share. This is driven by the growth from mobile devices and from data. And by bringing together our assets across compute, storage, and Aruba, we're leading a new category called converged infrastructure for the edge, which will power the emerging $14 billion market of industrial IoT applications, and that's growing at about 15% a year. And finally, services represents an $116 billion opportunity, growing at 3 to 4%, where we're seeing growing customer needs for consulting and support across hybrid infrastructure and demand for flexible IT consumption models.

So as you can see, we play in healthy markets that are growing, and we are well-aligned to address them. Our strategy is tied to what our customers tell us they want. So we're focused on four transformation areas that define the IT challenges faced by our customers. And they are transform to a hybrid infrastructure, help our customers protect their digital enterprise, empower the data-driven organization, and finally, enable workplace productivity.

So what I hope you will have taken away from this discussion today is that we are well-positioned to win. For customers, we will win because we are more nimble and faster to respond. And we have a sharp focus on hybrid IT, the intelligence edge, and we have the expertise to make it happen with increased innovation, all the while focused on bringing them the best solutions to solve their most challenging problems, leveraging our own technology and our robust ecosystem. For partners, we'll continue our focus on the channel. With the spin merge of ES and software, our partner ecosystem will continue to broaden even further, and partners will remain at the center of our multi-cloud strategy. For employees, employees now have a clear mission and vision. Our operating model is simpler, and the organizational structure is flatter, and employees will be more accountable for the work that they do. And we will continue to make HPE a workplace of choice for existing and new talent.

And for our investors, you will see an improved financial profile, with higher revenue growth and operating margins and continued strong cash generation. And you'll see operating profit is more than 60% recurring with the go-forward Hewlett Packard Enterprise. And our strong balance sheet will enable significant shareholder returns and disciplined investments. One thing you can count on is that the new Hewlett Packard Enterprise will invest in the innovation, the solutions, and the go-to-market resources necessary to grow and win.

So in closing, I have to tell you Hewlett Packard Enterprise is in the strongest position that I have seen since I joined the company over five years ago. We've got a clear strategy, and we'll be more focused than ever on how we innovate in our business models, our products, our solutions, and our go-to-market. So I'm super-excited about where this company is. It's been a journey to get here, but as I said, we are in the strongest position that we've been in a long time against the backdrop of a very rapidly changing environment. And you'll hear more about that strategy from Antonio Neri in a moment. But overall, I think you should be pleased. We've got a clear strategy aligned to the market opportunity that represents in my view a very attractive investment opportunity.

So thank you for joining us today, and now what I'd like to do is introduce Mike Nefkens, who will talk to you more about our enterprise services business and our spin merge with CSC. Many of you know Mike. He has done a phenomenal job leading enterprise services, a role he's been in since the end of 2012. Mike's been with HPE/HP for over 15 years, and through it all I've been incredibly impressed with his leadership, his strategic initiative, and most of all his partnership with his team and his clients. Mike and I have worked together very closely in the turnaround of ES over the last four years, and I'm really proud of what Mike and his team have been able to accomplish. So today, what Mike's going to do is walk you through ES's financial performance as well as the details of the spin merge with CSC and where the business is headed on its journey forward. So Mike, come on up.

MR. MIKE NEFKENS: Thanks, Meg. All right, thank you very much and good afternoon. I'll tell with that intro, I almost feel like I need to start by thanking the academy. All right, now we've got everybody awake here. So it has been a truly exciting year for our enterprise services business. We've executed very well on the ES turnaround plan I laid out here at SAM about three years ago. Our fiscal year '16 performance is solid. We're creating a new company through a spin merge, which has created shareholder value and will allow us to continue our positive journey and go even faster going forward. I couldn’t be prouder of the enterprise services team and what they've accomplished this year, all the way from our engineers in the field, all the new hires we brought on in our - - locations to our world-class executive team, including our CFO, who is sitting in the back, and many others. It has been a truly fun and remarkable year.

So with that said, over the next ten minutes or so, I'm going to go deeper into our performance and our plans. So let me start with a summary of our four key messages. Message number one is we are on track to meet our FY16 guidance for revenue and operating profit. Our revenue is expected to be flat to down 2% year over year in cost and currency, and our operating margins will be on the high end of the 6 to 7%

outlook we provided to you. Point number two, our turnaround plan has momentum entering FY17, and we've stabilized our revenue. Our win rates are up year over year, and our profit margins have more than doubled since FY13. The third point, our spin merge with CSC will provide significant value to our shareholders and create the number one independent end-to-end IT service firm in the world. And lastly, our separation activities are on track to be completed, the spin merge with CSC on or about April 1, 2017, and our FY17 plans are developed and deployed.

So now I'd like to dive into the financials, and let me explain this chart a little bit, 'cause it's a little bit funky the way we've got it laid out. So what we have here is we've got two full years, our '14 and our '15, and then I'm showing you three quarters of '16, so the comparisons aren't perfect, but I just want to make sure you see the numbers there. So the main message on this chart, what you'll see is that our enterprise services business has delivered on its commitments in FY16 and significantly improved performance over the past three years. The first point you'll see on the chart is that our revenue has stabilized in FY16, and we've been roughly flat in constant currency. And you can see on the quarterization there we were actually 0% in Q1, plus 1 in Q2, and Q3 is about minus 3% due to some comparers. And we haven't even had our strongest quarter yet, which is the fourth quarter.

We've won several deals, large deals this year, with Omnicom Group, Tesoro, Carrefour, Microsoft, and we continue to win. One of my biggest concerns about the spin merge was are we going to lose some momentum, and a lot of these wins have come in even after the announcement, so the momentum continues. Our SES business, we call that strategic enterprise services, and I'll talk more to that in a bit, it's a lot of the new services we're driving, has actually grown 33% year to date. So real momentum there on the top line.

Point number two is we are successfully executing on our cost takeout plan to deliver on our OP commitments, and we're on track for a cost takeout of over $1.1 billion in '16. So that makes three years in a row where we've taken out over a billion dollars of productivity. One of the key levers in that has been our labor shift, so we have been able to move a majority of our services and our delivery to what we call these offshore locations, or our global delivery centers, and we're well on our way to get that mix to 60%, which is a major achievement for us.

Point number three and finally, we have improved our OP percentage by over 300 basis points over a three-year period. And you can see through three quarters at 6.7% OP, and traditionally the strongest quarter still to come we're well on track to meet the numbers for the year and well on track to hit the guidance that we provided, the long-term guidance of 7 to 9% for this business. So net-net, as you can see by the financials, just a great year, and I'm really proud of what the teams have been able to accomplish, and we truly have some momentum going forward.

So now what I'd like to do is just talk a bit about some of the operational metrics that sit below the numbers that I just provided you. So the first, what's really driven a lot of this change has been our ability to take our total cost to workforce, which is at 57.1%, which is now the lowest since 2012, this was in the low sixties to mid-sixties when we started this journey a few years ago. Total cost to workforce is all workforce costs, all up and in for us. How we've been able to do that, we've improved our location mix I talked about a minute ago by 11 points, and our labor pyramid has shifted dramatically as well. We're bringing in university hires again. We've got less executives at the top; we've rationalized spans and layers. We're a much leaner, cleaner pyramid for a services business.

Now through that transformation, the question is how has this been for our customers. And that was one of my biggest worries as we set off on this transformation, and I'm very excited to report out that actually our Net Promoter Score has gone up almost 13 points since '13, so we've made really good progress there. We're at about 36, and that's one of the highest in the industry, and we're very proud of that metric.

Looking at growth, as I mentioned earlier, our strategic enterprise services business, this would be things like security, it would be application modernization, apps movement to cloud, a lot of our virtual private cloud, managed private cloud, this is now a business that is truly growing, and it's growing at about 33%, which is helping us offset the decline in some of our traditional businesses. So very proud of that growth versus our competition. New logo is up 10%. We just renewed our largest renewal in two years, so that’s secured. And then my favorite metric is our win rate for renewals is 95%. And that is industry-leading. When we started this, we were in the low eighties. And let me tell you this just to reach out to my Americas team. In the third quarter, our renewal rate in the Americas was 99%. And that is truly industry-leading. I'm excited about that for two reasons. Number one is our customers are voting to stay with us as we renew. Number two, I love it when my competitors spend their good money, field selling costs coming after our renewals, because they have a 1% chance to win. And we're going to make sure we defend that business. So we want them to keep doing that obviously.

All right, so now I want to shift gears a bit and talk about the spin merge that we announced in May. And I want to first look at timing and value. So looking at timing, as I mentioned earlier, the transaction is targeted to be completed on or about April 1 of 2017. It will be tax-free to Hewlett Packard Enterprise. And at the time of the announcement, the deal was actually valued at $8.5 billion. Since then, it's moved up to over 11 billion, and this number is dependent on CSC's market cap, which as of Monday, its close was at about 7.6 billion.

Now looking at the other component of the value, the $4 billion you see, there are really three factors. The first is about a billion and a half in cash. The other is 1.9 billion in debt transfer or retirement. And then the last is a little over half a billion dollars in the transfer of a pension liability. So that makes up a total value of the deal.

Also now let's talk about synergies for a moment. The new co. will expect first year cost synergies of approximately a billion dollars, with annual run rate of $1.5 billion in synergies exiting the first year. So synergies are a big deal. And the majority of the savings are coming from company policy changes like travel and other benefits as we align more to a services model, and we're also getting a lot out of facilities rationalization and some other rationalization we'll be doing.

I want to spend a moment talking about who the new company will be and what it will offer to clients. So first, $26 billion in annual revenue with about 5,000 customers, so really good scale. And its true global scale will be unmatched with about 95 data centers and 85 delivery centers across 70 countries. So big companies that are present in many locations can tap into what we have to provide them service in all the countries that they operate in. Now when you look at these locations, 95 and 85, that's both a good thing, and I see a lot of opportunity there as well as we're going to be able to rationalize some of these facilities down as we become more efficient. A good example of this is SAP services. We used to provide SAP services in about 25, 30 locations. We're working now to get that down to about five to eight locations. So this scale is going to really help us move forward. It's great for our customers, and it's going to be good for us going forward as well.

So putting it all together, we'll be the number one independent end-to-end IT services firm in the world. We'll be best in class in IT operations with a focus on infrastructure, applications, and business process services. I want to talk about that for a minute. When I talk about IT operations, what does that mean? So I want you to think about the CIO. What the CIO is thinking about is they're hearing from tons of consultants on what they need to go do, right. And it's pretty simple. You need to move to cloud, you need to secure your assets and your data, you need to get better data and be able to use that. You've got to be able to rationalize applications. So they know what to go do.

The problem that CIOs are having is they're not sure how to go do it. And there are not a lot of companies out there that have the how, the background, the methodologies, the details on how to untangle these old pipes in the basement and be able to put those back together. That's what we do, and I know it's not that sexy when some people, they want to talk about consulting up at the top. We are running the stuff at the bottom and helping our customers transform. So when we talk about IT operations, that's what we mean. We want to help our CIOs deliver their programs on time and on budget. So when they choose us, we will be the least risky choice, the one with the scale, and the one with the how capability on how to make these moves as they navigate hybrid, they navigate cloud, and they have to navigate taking the cost out of the old stuff. So that's exactly how we're positioning this company, and it will be, we believe, the number one IT operations company in the world with true capability.

Now both ES and CSC bring unique strengths to the table. ES brings a good go-to-market. We talked about the revenue and the wins. We bring true delivery and customer focus. CSC has a service-oriented functional approach. Their systems are much more oriented towards services, where ours have been more product-oriented. And CSC brings some great partnerships to the table that we previously haven't had access to. So it's this blend between the two that will really make this company a game changer. As you can see, I'm excited about it. Now a few other things to notice here on the chart, the company's board will be split 50/50. Mike Lowery, who many of you know, will be the chairman and CEO of the company; Meg will be on the board. So just - - a lot of excitement around this.

Now what I want to do is just take a look at the timeline in where we are on the journey as we move towards the spin merge. So we announced the spin merge in May. From May to September, we defined a vision, the strategy, the operating model, and the broad financial targets and financial architecture of the new company. In late October we'll be filing the Form 10. CSC will be filing their S4 as well. In February, both companies will file their final Form 10 and S4. And in March, we will conclude operational pressure testing and ensure readiness before we cut over on April 1, as we launch the new company.

So in summary, here are the ES priorities looking ahead. The first, we have to close our '16 strong. So as you see, we have some momentum. We still have two weeks to go. I've been pushing my team. We've got to get over the goal line strong, and it looks like we're doing a nice job there. Second is around focus. And when I mean focus, it's focus on our customers and our employees. The thing that's concerned me the most has been the time between announcement and the actual close, and we've had to reach out to a lot of customers and make sure that they understand that they won't be disrupted, that the new co. will be truly positioned to drive tremendous value for them, and that they have confidence in us as we get through this integration period and move into the new co. So a lot of focus on customers, and it takes more than one meeting. It's a constant thing.

The second is employees. We want to make sure that the employees are excited about this new co., and I can tell you they are. They truly believe that being part of the largest independent pure play services company in the world is exactly where they want to be. And we'll have a great partnership with Hewlett Packard Enterprise going forward. But to have services be prime has really got our employees excited.

The third is we've got to execute. We have five months of '17 where we'll be part of Hewlett Packard Enterprise. We've got to continue the momentum, and then we obviously have to continue the momentum strong as we get into the new co. And then the last is we have to complete the separation activities and integration activities on time, on budget, and getting all the checkmarks where we need them.

So that's it in a nutshell. As you can see, I am very excited about the progress we've made. As Meg said in the beginning, three or four years ago, this was a very, very difficult situation that we were in, and we have taken a business that we knew had a lot of value, and we've been able to improve on that over the three years. And it's taken our partners, our employees, the support from Meg, the board, etc., to get us where we are today. But we believe we're strong enough and we're ready for the next chapter now. And that next chapter is going to be in the new co. and with a great partner, Hewlett Packard Enterprise, supporting us going forward. So with that, I'd like to thank everybody and turn it over to my good friend Chris. I believe I'm going to be his largest customer now going forward, so Chris, over to you.

MR. CHRIS HSU: Thanks, Mike. And if you need some coffee later, I'm happy to grab that for you. Today I wanted to give you an update on software, share some of the information about the planned spin merge with Micro Focus, and let you know what we're focused on between now and the time of the transaction. As you all know, HPE's software business today has a diverse portfolio that includes a mix of high growth and high margin products. We also have significant recurring revenues and have a large established customer base. And in order to optimize this mix, we're implementing a new product segmentation strategy that will ensure we're putting the right resources behind the highest value opportunities while continuing to invest in the mission-critical applications that our customers rely on. Expect us to make more targeted R&D investments and further strengthen our go-to-market execution.

Looking forward, the planned spin merger will create one of the world's largest pure play software companies and will enable us to meet the needs of our customers while delivering greater value for our shareholders. We're on track to complete the spin merge in the second half of fiscal 2017. As we go through this process, we're focused more than ever on delivering on our financial commitments and making sure that we set up our software business for a smooth integration with Micro Focus.

Our software business competes in five key areas, offering our customers enterprise-grade scalable solutions with analytics built in. In big data analytics, we enable organizations to extract value from their data through advanced analytics of both structured and unstructured data. We also have a leading position in enterprise security, where we provide solutions to protect users' applications and data across locations and devices.

Related to security, our information management and governance offerings help customers access, control, protect, and recover information. And next, our application delivery management business provides quality lifecycle tools for both traditional and DevOps application development models. And in our IT operations management, we facilitate management, automation, and optimization across both data centers and hybrid cloud environments for 20,000 customers.

As you can see, this is a strong, diverse portfolio of software assets. And while these products are non-core to HPE's go-forward strategy, they're incredibly core to our customers. And by bringing them together with Micro Focus, we ensure continuity for our customers, career opportunities for our employees, and value for our shareholders. Micro Focus's approach to managing both mature and growth assets will ensure investments in growth areas like big data analytics and security while maintaining a stable platform for the mission-critical software products that our customers rely on. And for employees, Micro Focus's approach will mean that every product line will have a clear and important role in overall company performance, and those employees will have a high level of clarity in the strategy for their organization. It also means that they get to work on long-term customer-focused projects in the software technologies that they love. I think it's also important to note that Micro Focus does not shut down software products that it owns. The company's philosophy is that as long as a customer values a product, it has value to Micro Focus.

Now as you can see on this slide, software has a strong financial profile. Our revenue is diversified across multiple industries and applications. And about 60% of it is recurring. We have a number of initiatives already underway to improve operating performance, and these steps are an important part of positioning the software company to achieve its long-term success as part of Micro Focus. I'll talk more about these when we cover the combined company later.

Now let's talk for a second about this planned spinoff and merger with Micro Focus, which is expected to be completed in the second half of fiscal year 2017. As a reminder, this transaction is tax-free for HPE. At the time of the announcement, the deal was worth $8.8 billion. And since then, it's slightly decreased from the current valuation to $8.7 billion. And that includes 6.2 billion in Micro Focus stock to HPE's shareholders and 2.5 billion in a cash payment to HPE. The equity component of this transaction has declined slightly, since due to the decline in the British, the value of the British pound since we announced this transaction a couple of weeks ago, while at the same time Micro Focus's stock price has rallied.

The new combined company will be a FTSE 100 listed company. And HPE's shareholders will own 50.1% of the company through American depository shares on the New York Stock Exchange. Micro Focus's board of directors will include one HPE senior executive, and HPE will nominate 50% of the independent directors on the board. These deal terms are important as they indicate how we're setting up the new company for long-term success and ensure that it continues to deliver value for our customers and our shareholders.

The combined HPE software and Micro Focus entity will generate approximately 4.5 billion in annual revenue with 60% of that recurring. And HPE software will comprise three-quarters of the new company's revenue and its employees. The combined entity will be one of the world's largest pure play software companies, with a broad portfolio of products and services to address the challenges IT and business leaders are facing. And we found a great partner for our software business in Micro Focus. The company's leadership team has a proven track record for managing a diverse portfolio of assets. Since Kevin Loosemore, the company's executive chairman, took over about five years ago, they've increased their market cap by over 700%, through a combination of acquisitions and operational improvements.

HPE software and Micro Focus have highly complementary businesses, and this merger is going to create a number of benefits. The combined company will have a stronger go-to-market with nearly 4,000 sales people worldwide and deep R&D resources to deliver best-in-class solutions to customers and partners. Micro Focus's approach to managing a portfolio of software assets along with the efficiencies that will result from creating a combined pure play software company will help us achieve a 20-percentage point improvement in HPE's software business by the end of the third full fiscal year following the transaction close.

We expect to improve gross margins by better managing our mix of business and implementing stronger pricing and discount controls and shifting to lower cost countries. At the same time, we will achieve efficiencies in our cost structure as a more focused pure play software company when we integrate with Micro Focus. We're also transforming our go-to-market to have more inside sales and automation and a more efficient marketing and lead management engine. And I want to be clear that we will drive these improvements while we continue to deliver customer-centered innovation with a more focused and disciplined portfolio strategy.

Let me quickly highlight a few upcoming milestones. Early next year, Micro Focus's shareholders will vote on the proposed merger. From a financial perspective, we will file a preliminary Form 10 sometime in the second quarter and a final Form 10 closer to the close of the transaction in the second half of fiscal year 2017. You'll also notice that we have several operational cutovers. In parallel with the CSC-ES spin merge that Mike talked about, we've set up a divestiture management office to oversee that both transactions are executed as seamlessly as possible from an operational, employee, and customer perspective. And through this setup, we have a detailed plan and are tracking thousands of milestones to ensure that this remains on track.

We've learned a lot from the HP Inc. separation, and I'm confident that we'll execute this spin merge as seamlessly as possible.

Let me wrap up by talking about software's priorities through the close of the transaction with Micro Focus. First is exciting our customers, our employees, and our partners about the future of this new company. Getting commitment from these key stakeholders is critical to execution and delivering our financial and operating plans. And the feedback that I'm getting from our customers and partners is that we're executing very well. I think there's a lot to be optimistic about.

Next is improving the software revenue trend and beginning to expand margins to align with the benchmarks of peer companies. This work will lay the foundation for our integration with Micro Focus and allow us to achieve improved financial performance that we are targeting as a new company. And it will also create the capacity to continue making investments in the business. Third is delivering against the product segmentation strategy to deliver on our financial plan. As I said earlier, managing each of our software products specific to their lifecycle dynamics should enable a more efficient sales execution and better customer outcomes.

Fourth is transforming our business processes and our IT infrastructure for software to enable a lower cost structure. We're implementing a nee cloud-based IT infrastructure that is tailored to a pure play software company. This IT infrastructure will enable future M&A. It will be lower cost, and it will make us more agile. And the plan is to bring Micro Focus over to this infrastructure following the transaction. Finally, we have to successfully execute the spinoff and merger with Micro Focus without disruption to our business or our customers. Thank you, and I'll hand it back to Meg.

MS. WHITMAN: Good job, good job. So thanks to both Chris and Mike for those updates. And I hope you have a very clear understanding now of the two spin merge transactions and the timing. They are both good news on track, and we feel certain that these moves are beneficial not only to our customers, partners, and employees, but also to our investors. These transactions will unlock significant value for our shareholders, more than $20 billion. And they will result in a go-forward Hewlett Packard Enterprise that is nimbler, faster-growing, with higher margins and great free cash flow.

So now what I'd like to do is introduce Antonio Neri, our EVP and general manager of the enterprise group. Most of you know Antonio by now. He has been doing a tremendous job running the enterprise group business for the last 18 months. He's a great combination of general manager and deep technologist. And Antonio joined HP in 1995 as a customer service engineer, and he has held a variety of roles across the company, including the leader of technology services, servers, and networking. So today Antonio is going to walk you through our strategy and the market opportunity for enterprise group and the future of Hewlett Packard Enterprise, so Antonio.

MR. ANTONIO NERI: All right, thanks Meg. Hello, everyone. I'm very happy to be here with you today to talk about the enterprise group. Today I'm going to be giving you an overview of our business, aligning our strategy, our solutions, areas of investment, and why I believe we are incredibly well-positioned to compete and win in the marketplace. So we have a lot to cover, so let's get started.

There are three key takeaways I want to leave you today. First, the enterprise group is delivering on our plan for this year, the plan that I shared with you last year at the security analyst meeting. Second, our strategy is clear, and it is aligned to where the market is going and what the customers want. This strategy has three folds. First, we make hybrid IT simple, we power intelligent edge, and we have the expertise in services to make it happen. And then finally, as we look across the enterprise business, we continue to optimize our operating model, and we are focused on improving our cost structure and profitability of our business.

So let's begin to take a look at the EG recent performance for 2016. Overall, I'm very pleased. We have shown a very strong performance in fiscal year '16. The enterprise group is a $28 billion business. We have reported year-to-date through Q3 a 5% growth in constant currency when it's adjusted for divestitures. 60% of our profits are recurring, which provide us the consistency and the stability in our financial results. And most importantly, our innovation is thriving. This year alone, through the first three quarters, we increase our R&D spend by 10%, and we already introduced to the market more than 100 products and solutions aligned to our strategy going forward.

Our customers are happier. We have a very strong market-leading NPS, Net Promoter Score, of 81.5% in our technology services business. And our support satisfaction, which is basically exceeding customer expectation, has improved 10 points since 2012. We continue to beat the competition. In total storage, we have gained 10 of the last 11 quarters' market share. And we also led the overall server market, including the X86 market, in revenue share, for 81 consecutive quarters, which is actually more than 20 years. This is amazing the only business that has done that is the printer business on HP Inc. So this is a strong foundation for us.

Last but not least, we actually continue to make a number of operational improvements. Over the past three quarters, our working capital and our supply chain efficiency has seen both gains of more than $400 million, and we have achieved almost $100 million in efficiency in our support business. So as you can see, we're having a very strong performance in 2016.

So now let's take a step back and look at the market we compete. You saw this slide earlier from Meg, but I wanted to take a moment and revisit the key inflection points that are shaping today's IT industry. These are the shifts that inform us on our core belief which are hybrid IT will win, the next generation of software-defined infrastructure will be here, and last but not least, the edge will explode. It has led us to align our enterprise group strategy around three main core tenets of focus.

First, hybrid IT, the intelligent edge, and technology services. These markets are large in size and are growing at a very healthy rate. But within this segmentation of the market, there are pockets of large growth, and we are very well-positioned to win. We play - - markets like mission-critical systems that power workloads like HANA, which are growing at 6%, markets like the integrated system, which general purpose virtualization workloads, which are growing at 8%, high performance computing, which are powering very large computational algorithm workloads, which are growing also at the rate of 8%, wireless networking connectivity, which is growing at 11%, industrial IoT, which is growing at roughly 15%, private cloud, which is growing at 17%, and then hyper-converge, which is a different type of infrastructure at the remote office/branch office, growing at 33%. As you can see, - - markets are growing a very health rate, which are aligned perfectly well with portfolio and the strategy of Hewlett Packard Enterprise.

Now the accelerated growth we see in these segments give us a tremendous opportunity, and we are aligning our innovation aggressively against these segments to capture profit share. We have designed an entire business strategy to take advantage of these opportunities and align our solution in go-to-market motions to really how customers want to buy and consume technology. As a result, our strategy again is threefold. First, we make hybrid IT simple. Second, we will power intelligent edge, and third, we have the expertise to make it happen.

So what I would like to do now is go a little bit deeper in each of these areas to give the content how we're going to do this. And let me first start with hybrid IT. It begins all in the traditional data center, where solutions like server, storage, networking, converged infrastructure, and by the way, a telco business that we have, which is large and growing. On top of these offerings, we build software-defined and private cloud solutions that will allow customers to power the application of today and tomorrow in a very efficient way. And finally, we build very powerful relationship with public cloud partners like Microsoft Azure to help customers take advantage of the move to cloud solution.

We have a very, very clear strategy around hybrid IT. First, we will transition our traditional data center customers to our next generation of software-defined infrastructure solutions. We must also continue to deliver an open workload software optimized software stack. We will accelerate revenues in margin-rich segments through a shift in a product mix like storage, networking, and so forth. And we will continue to capture increased share, not only in volumes of units, but most importantly, in revenue profit pools. And we are really uniquely positioned to win. First, EG is already a market leader across the entire data center infrastructure portfolio. And our innovation DNA has never been stronger.

We have a world-class portfolio, we have a world-class sales and marketing engine, and an industry-leading channel and ISV ecosystem as well as a very competitive cost structure.

So let's take a look a little bit around this traditional data center space. There is no question about it. We are the market leader here. We provide the leading solutions across categories, taking the number one position in server, IT, cloud build infrastructure, and total storage. We also hold the number two position in external storage and integrated platforms. And we are not slowing down. Our server business here, we have been the leader for more than 20 years. We actually ship one HP Proliant server every 11 seconds. The scale is enormous. In storage, we are the only vendor that has grown share 10 out of 11 quarters, past quarters, of which 9 consecutively. And our 3PAR all-flash array is on fire. We are growing 70% year over year.

We expect to close the SGI acquisition the first quarter of 2017. And this will add to the already very strong portfolio we have in high-performance compute with HP Apollo, our high-performance data analytics with our Superdome X and other platforms. These markets, as I said, are growing 6 to 8%, and they are large in size, $12 billion on HPC, and $2.5 billion on mission-critical. And as Meg mentioned, we recently signed a very exciting partnership with Arista to offer a combined data center infrastructure solution which brings HP compute, HP storage with leading network and portfolio of HP Arista, to really provide the converged solutions customers are looking for to deploy services and applications faster.

But we are not only winning in market share. The quality of our solutions are widely celebrated out in the market. Industry analysts like Gartner, IDC, Forrester consistently rank HP as the leader in the data center infrastructure offerings. Here you can see our leading position in the market: servers, general purpose disk array, integrated platform. We already being considered as the leading provider of those solutions. And you can see some of the examples and the accolades, recognition we get. But we are leveraging these solutions to deliver game-changing outcomes for our customers, 'cause the core is - - the value of the app and the data to deliver those business outcomes.

Let me give you an example of it, Dropbox. Dropbox wanted to increase the workplace productivity for their customers while delivering reliability, security, and scalability to their own enterprise users. To so do, Dropbox partnered with us to shift back from AWS, a public provider, their infrastructure on-prem so they can get the customization, the scale that they require and honestly to improve margins as well. This is an example of what we do to bring customers' workloads back on-prem. How we did it, and what were the results, not only we improve their margins by repatriating their workloads. We help them grow faster, we improve the - - reliability, we help them prevent data loss and achieve better security for enterprise clients. Our relationship with Dropbox is one example of it. We are super-excited to work with them and continue to partner with them in the future.

Now that was the traditional data center. Let's take now a look what we are doing in the software-defined and private cloud solutions. These - - are categorized in three specific areas. The first, HP Composable, which is a first-of-a-kind category we have created. We have a history of creating new categories every single time. We are the first to introduce the first X86 server, the first to introduce the blade infrastructure, the first to introduce supercomputer at the enterprise scale. Now we are creating a new category again, composability, because we believe infrastructure needs to be treated as a code. It has to be configured from the application down into the infrastructure to accelerate business results.

We also launch solutions like HC 380, which as Meg, from inception to introduction, was done in less than five months. The second is HP OneView. Our infrastructure automation solution has been built with software intelligence. It streamlines the provisioning and this lifecycle of compute, storage, to fabric, and it enables IT staff to control resources through a unified set of experiences and APIs. We are seeing great traction for these products. We already - - the market and obviously to support our infrastructure, we already have more than half a million licenses deployed, and we've seen great growth rate 44% in this example.

Third is HP Cloud System, which is our leading private cloud offering. This product puts us at the top of the list when it comes down to private cloud solutions. We have been ranked number one vendor in private cloud by industry analysts. With HP Cloud System, we provide private cloud in the box with automation, orchestration, and self-service that deliver the simplicity of hybrid IT. And it's very important to mention that we have a number of key unique partnerships in the software-defined data center and private cloud. We have relationship with the best in the industries, including Mesosphere, Docker, Chef, Puppet, and Microsoft.

Now I would like to get a little bit deeper in some of these core offerings and show you how they work together to create the business outcomes for our customers, so you can see the results of what we're doing in our innovation, so let's play this video about HP OneView.

[Video played]

MALE VOICE 2: Through software-defined intelligence, HPE OneView brings a new level of infrastructure and workload automation management across HPE infrastructure, increasing IT staff productivity, simplifying operations, and accelerating innovation. HPE OneView is built on a modern standard-spaced API and backed by a broad ecosystem of traditional and cloud-native partners and even third party components, including Arista Networks. HPE OneView is the heart of HPE's composable infrastructure, synergy, and HPE's hyper-converged offerings, and combined with HPE Helion, provides the foundation to simplifying the next generation of hybrid IT.

MR. NERI: So we talk about making hybrid IT simple, and HP OneView is one of the core foundations of doing so. So now let's move onto HP Synergy. As I mentioned earlier, we are extremely excited about the synergy because it creates a new category in the market, which we call composable infrastructure. We refer to HP Synergy as infrastructure as a code, because the intelligence has been built into that infrastructure. It can adapt to every workload to deliver services at lightning speed. With HP Synergy, compute, storage, and the fabric are now available in a single pool of resources that can be instantly configured according to the specific need of each application. In fact, developers can access that infrastructure with one line of code.

Our customers are already seeing incredible results, in particular in terms of flexibility and speed. With HP Synergy, now we can deliver the public cloud economics on premises for our clients. One particular customer which I think is going to show you the power of the platform with hat innovation is actually Hudson Alpha. So let's hear from the customer and see what we're doing for them to advance the life of our people.

[Video played]

MR. JIM HUDSON: I'm Jim Hudson, the cofounder and chairman of the board of the Hudson Alpha Institute for Biotechnology. Where we're concentrating in human genomics right now is in the area of rare disease. We had recently opened a clinic for children who were born with a condition that can't be diagnosed. These children will almost certainly go through a diagnostic odyssey of going from hospital to hospital to try to figure out what's wrong with them. The ability to sequence through genome will answer that question half the time. Our biggest current challenge is all the data that we're generating and how are we going to use that data, exploit that data, share that data. With HPE Synergy, we're able to bring all of the needs of those 34 companies, those 200 researchers together and use the resources in the most efficient manner possible. Genomics is going to revolutionize healthcare in the future, and that's really what drives us here at Hudson Alpha. We want to be the leader in doing that.

MALE VOICE 3: I don't think it's a stretch to say that Hudson Alpha, working with HPE, and the solutions that we have from HPE are going to save lives and have already saved lives. That's not a stretch.

MR. NERI: So you can see the power of platform like HP Synergy. In the end, technology is a key enabler for the business to deliver results and business outcomes faster. We believe HP Synergy is going to change the game again. And this is why we are so excited. And obviously an example like this, can we find cure faster by analyzing data much faster than before.

So we talk about traditional IT. We talk about software-defined and private cloud. Now let's talk about cloud as a strategy. Today, you heard both Meg and I say that the world will be hybrid. We also believe it will be multi-cloud. We have done a lot of research in our install base, and on average we found that those customers actually are going to deploy 2.1 clouds in their environment. And they tell us they will continue to be placed in their workloads on multiple private cloud stacks and as well public cloud stacks. We support and will continue to support multiple private cloud environments, like vSphere, with VMware, Mesosphere, a new data center operating system, and of course our HP Helion OpenStack solution.

And our strategy actually helps customers broker workloads to public cloud destination such as Microsoft Azure, which is our preferred partnership, and also the server provider net where we have out there, with our channel partners in the - - . Therefore we have defined our cloud strategy to be a multi-cloud approach. And as part of this solution, we offer management stacks built on HP Helion Cloud Suite as well as our cloud-native application development platform and orchestration platform based on HP Stackato.

And finally, our services team helps customers determine the right mix, determine how we power that mix, and ultimately how we optimize that mix to migrate the workloads where they need to be. So that concludes our hybrid IT strategy. Clear vision for the traditional data center, transition customers to the software-defined infrastructure, and a multi-cloud approach with a clear user experience that makes hybrid IT simple.

Now I would like to shift gear and go to the intelligent edge. We talk about intelligent edge is going to explode, and this is an incredible, exciting opportunity for us. We power intelligent edge through offerings like campus and branch with our Aruba products and industrial IoT, Internet of Things, with platforms like HP Edgeline. We want to be the IT in IoT. We have a first-mover advantage strategy for the intelligent edge. First, we will leverage revenue synergies across Hewlett Packard Enterprise in Aruba in the campus segment. We will also capture opportunities from convergence in the campus networking and expand our high-growth adjacencies, opportunities like - -. And we have the vision to be the category creator for the converged systems for the edge.

We are positioned incredibly well I think here to win. We can bring compute and storage at the edge. But with Aruba, we have the industry-leading, fastest-growing wireless platform in the market. We are growing 20% year over year in our bookings, and we're already taking share from Cisco. We have a highly differentiated offering in a software-defined wireless network. And we offer market-leading mobility security solutions, and we have the advantage of being the first mover again in this new exciting category, which we call converged systems of the edge.

So let's take a look at the campus and branch capabilities. We have an exciting number of strong solutions here with HP Aruba innovation, which actually the innovation is firing on all cylinders. First, we have Aruba ClearPass, which addresses the security challenges across both wire and wireless solutions and the policy automation and control. We also offer Aruba Meridian, which infuses mobile applications with location-based services to improve the visitor engagement for example, or location of inventory. And then Aruba Central is a very powerful cloud-based network management solution with built-in analytics. We have tremendous partnerships here as well, with leading companies such as Palo Alto Networks, Citrix, MobileIron, Intel, and Robin [phonetic].

And we are universally recognized as the leader in the market, ranked number one in wired and wireless solutions ahead of Cisco, by Gartner. And we are holding the number position in share and continue to growth. - - an example of this power, the power of our solution, is the Super Bowl 50, which actually was hosted here in the Levi's Stadium down the road. HP Aruba provided the wireless infrastructure to support the stadium during what I think is the largest event on the planet. The pressure was definitely on, but we deliver. Using HP Aruba, we actually provide secure access to the spectators, to the fans. We actually transfer more than ten terabytes of data over a span of three hours to more than 29,000 fans. 33% of the people actually use our location-based services to navigate the stadium. And interesting enough, the Levi's Stadium successfully monetized the results of the wireless connectivity with an average of $212 per transaction, through buying food and buying fun merchandising, all powered with an application that we developed for them.

So campus and branch is just half of our approach for the intelligent edge. The other half is this very exciting new space which we call industrial IoT. Today, valuable data is being generated everywhere, manufacturing floors, power plants, airplanes. I think you get the idea here. All of this is happening beyond the data center. Not everything is in the data center. We call this the edge. Valuable insights are pent up in the edge devices, such as - -, even in this room, as we are talking here, and are waiting to be extracted with a new breed of products and applications which ultimately we believe the first segments will be the industrial segments.

To capitalize on this opportunity, we provide a number of solutions designed for the intelligent edge to complement our existing connectivity and connectivity which we can provide with Aruba and the data center and the cloud IT technology -- earlier. We now have created a new category which we call the converse system for the edge. And I think this is a key IT differentiator. And the reason why is because we have the expertise to bring compute storage of the edge. I think this is a true differentiated solution. This solution includes -- high performance computing and storage, which include also the embedded data analytics to be able to process that data real time there. We are seeing tremendous momentum with these solutions, with already more than 100 evaluations happening there. You can see the names. Pepsi, Johnson & Johnson, and Chevron.

But there are more, like Flowserve. We also develop a number of partnerships, which are very different type of partnership you're used to. These are partnerships that understand the industrial segments. And some of these are National Instruments and GE. Speaking of GE, earlier this year, Hewlett Packard Enterprises and General Electric announced very unique partnership to unite the IoT technologies with the OT technologies, the operations technologies, leveraging also the GE power of their platform, which is called Predix. This partnership brings together HP market-leading hardware with GE software capabilities to deliver a new suite of solutions that customers are looking for to really transform the way they do business and harness the power of the data through the analytics.

Our customers already saw some incredible things, and the possibilities are limitless. So an example of this is Flowserve. Flowserve is one of the world's largest and actually a very old company in industrial and environmental machinery, such as pumps, valves, face mechanical seals, automation, and services. This company actually has headquarters in Irving, in Texas, and now they are looking how to transform from the traditional mechanical way, leveraging IT to really deliver new services. Using HP, they leverage now our HP H-Line IT system together with National Instruments. Flowserve is now accessing a level of compute that was not possible before the edge. The company now captures essential data for this heavy machinery and apply advanced intelligence to actually predict failures before they can occur. And in doing so, they are actually expecting to grow their business by $500 million over the span of the next five years. So hopefully I've given you a good understanding of the work we are doing at the intelligent edge and why we are investing in this new set of categories, and why it's such an incredible opportunity for us. We have the systems, we have the engineering, we have the capabilities to deliver against this massive opportunity.

And finally, I want to shift the conversation to the third pillar of our strategy, which is technology services. As our customers look to transform their business, they are seeking a trusted advisor who can help them implement the right IT roadmap to deliver the long-term business objectives. Through our advisory and professional services capabilities, TS actually can help customers move through that transformation journey. We have aligned a very strong plan for our overall services business to position us clear to win. First, we must continue to drive the transformation for our customers and become the trusted advisor. We will also continue to accelerate shift of our portfolio mix toward newer, faster-growing accelerated, faster-growing services. We will provide the flexibility for our customers to consume IT the way they want it. And we will continue to expand our attach and penetration rates, particularly in those segments of the markets I talked earlier, mission-critical, high-performance compute, high-performance data analytics, hyper-converged, composable, which actually comes with higher attach rate for - - business. And we will continue to expand also our portfolio of the edge, because ultimately customers need help to deliver those solutions in a way they haven't done before.

So why our TS business will win? First, we have the industry-leading customer satisfaction. Again, you saw an incredible Net Promoter Score, which means we have the credibility, coupled with an incredible portfolio, and fit-for-purpose operating model and cost structure that allow us to reach customers everywhere around the globe. So let me show you how we are structuring this business going forward. Our TS organization is now organization into two key distinct areas, advisory and professional services and technical support services. Our advisory practice offers the expertise in hybrid IT, help implement edge, big data analytics, and then ultimately help customers migrate applications and workloads, all with the understanding of how they want to consume it. It is not about just transforming IT, but also their business.

Meanwhile, our support business deliver offers such as campus care, foundation care, proactive care, data center care, and flexible capacity services. This particular offering, flexible capacity services, leverages our HP Financial Services portfolio and capabilities so we can allow customers to construct the right consumption model to their particular needs, particularly as they go through this hybrid IT journey. We have a number of partnerships here too, and the one I would like to highlight obviously is the future partnership with Mike and the team with CS and CSC/NES. And our data center portfolio is growing high double digits. This is truly industry-leading and demonstrates the value of providing heterogeneous support in a customized way for this new reality.

As I mentioned, TS now have two practices. One is the advisory service, and the other one is the technical support services. So let me talk a little bit more about the advisory side. Up to now you have known this business as TS Consulting. Now we're going to focus on these four distinct areas that we talked about before, hybrid IT, HIT, big data, and application migration. We are seeing good traction here in these particular areas. With the numbers you can see on this page, we grew networking services up 5%, storage services up 14%, and cloud services advisory by 27%. One of our customers that is already leveraging our incredible advisory capabilities is actually Dubai in UAE. And what they are doing here is implementing a smart city platform, leveraging our portfolio of service and storage with our HP Helion OpenStack. With our advisory services, we are now actually designing a platform to integrate the data sources, designing the dashboards, maintaining the daily operations of the entire smart city solution. This platform will be central to the operating system of the city, providing access to city services to all individuals, including private and public sector to grow the economy.

Now that's what we do in advisory is all about helping customers transform where they are today where they need to be. So moving on from advisory, now I want to talk about what you know as the support business. As a reminder, the support business includes this portfolio. This is a portfolio we introduced in the last four years, and we have seen a tremendous growth in this portfolio. But as you know, TS is a growing annuity business. And I know some of you have had concerns in the past the reliance to the old kind of type of services. So I thought what we'll do is show you how we're doing today. The left side of this chart shows the mix of our support business orders in the past three years. I presented a similar version of this slide at last year's security analyst meeting. And I wanted to give you an update on where we are. But you can see in this slide that we are now less and less reliant on these old legacy XP Unix type of attached services. In fact, now the mix of the entire portfolio is now around 11%. And the other 89% is all about the new style of services we have been introducing over the last four years.

So now in addition to these financial benefits, you saw the numbers and the mix. I wanted to show you an example of what we're doing with TS support in helping customers. And a very cool example of that is the Sauber Formula 1. To run a race, you have to be super, super-efficient. Nanoseconds really count. And so partnering with us and the Sauber team, we are actually creating a new high-performance compute environment specifically designed to meet their needs to compete at a high level of performance. To ensure that environment runs constantly, they are leveraging our support to run 365 days, 24 by 7. Our data center care offering is behind this solution.

With a new support model, we are able to react to all the errors they are finding in the wind tunnels within just 30 minutes. The Sauber team actually now can also have faulty hardware replaced within minutes, which is more than sufficient to give them the redundancy that they need to really turn data faster into a solution.

So wrapping up, I would like to talk about what we are doing to improve our profitability of our business. We talk about the strategy, what we are focusing on, but now is how we’re going to drive increased profitability for our business. We have a very strong plan for 2017. First, we are pulling various levers to improve our gross margin cost structure. We are improving our mix shift with products like networking with Aruba as well as storage and technology services. We are focused on this sub-segment of the market that we talk earlier before, and we will continue to drive the penetration rates up in our TS support business.

We are also increasing our supply chain efficiencies by taking cost out and also shifting our workforce to global delivery centers, which we have done a very good job in the last four years. And second, we continue to improve our SG&A cost structure. We are optimizing our cost structure to offset some of the margin compression that we know. We are aware of the public cloud and as well as the competition from lower cost China manufacturers. But we have now deployed a flatter, leaner organization with lower cost and our functional support. And we have also simplified our go-to-market because now we have one go-to-market which is responsible for the end-to-end of sales, together with our marketing organization. We have already begun to implement these changes, actually, so we are already ahead of the curve, so we are ready to deliver the results in 2017.

So in closing, I wanted to recap the things I would like you to remember today as you go and write your reports. First, EG is delivering on our financial plan for the year. Second, I truly believe we have the right strategy aligned to the trends of the market and what the customer wants. And finally, we are working very hard to continue to streamline our operating model to take the cost out and improve our profitability. So with that, I would like to conclude my presentation and actually turn the stage to members of my staff, which I thought will give you a little bit deeper overview of how we're thinking about this going forward.

So first, I would like to introduce them. Ric Lewis is our software defined and cloud leader. Ric has been in the company for almost 30 years and has led many high value - - products, integrating both software and hardware. Actually Ric is one of the founders of HP Synergy. Next is Alain Andreoli, that leads our Data Center Infrastructure Group.

He has been with the company for almost three years and a very extensive career with Texas Instruments and Sun Microsystems. Next, Keerti Melkote, which is Keerti was one of the founders of Aruba and is a true thought leader in emerging intelligence edge. Next, Rafa Brugnini, which is our head of Advisory and Professional Services. Rafa has been with the company for almost 20 years. Before joining EG, actually he led the worldwide services business for the software business, and the last role was the head of the EMEA software sales. And finally, Scott Weller, which leads our Technical Support Services business. Scott has held many leadership roles in product development and services, including the US Department of Defense, Xerox, IBM Global Services, before joining HP almost eight years ago. So I would like to welcome them onstage after a short video. Thank you very much for your attention. I hope you got a great understanding about our strategy and happy to chat afterwards. Thank you.

[Video played]

MR. SIMANEK: Great, thank you. Hopefully everyone is wide awake now after that video, but appreciate you guys being here today, so I spent a lot of time meeting with our investors and the sales side analysts that we have in the room here. They're always constantly firing questions at me left and right, so I thought I'd take this opportunity with all you here and direct those top questions to you. So Ric, maybe we'll start off with you. I think everyone's well aware of the transaction we had with Micro Focus spinning off our software assets. But I think there's a little bit of a misperception there that we're getting out of the software business and that software is not critical to HPE, which I think is definitely not the case. We talked a lot about system software. So maybe you could give us a little bit more insight on what exactly system software is and what our capabilities are there.

MR. RIC LEWIS: Sure, Andy. Both Antonio and Meg talked a little bit about how our strategy is to make hybrid IT simple. Well it turns out it's not very simple by nature, but it takes a lot of software to make it appear simple to our customers, and that software starts at the low levels around infrastructure management software. It includes automation and orchestration software, the stuff that fits in the whole private cloud kind of space. And then really there's a whole set of software that makes up the user experience, which is what interacts with the customer. That's how they perceive the product. So software is absolutely critical at all those levels, and we're continuing to invest and develop in those specific pieces of software that are tightly coupled to the hardware.

And we have software in those spaces today that we are going to continue to develop on. Antonio talked about HPE OneView. That's our flagship infrastructure automation engine. And we're at the point now where we've sold 500,000 licenses of that, so half a million licenses, our customers love it. It's growing at 40% per year, and it's a great foundation to build upon. Above that, we have our cloud system software, Helion Cloud Suite, Helion OpenStack, a whole set of automation and orchestration software that tightly integrates with our products and makes it a simple experience to do a private cloud instantiation. So not only do we have those today products, but we're driving forward to the future. And we continue to increase the simplicity, increase the integration with our hardware platforms, and our customers really love where we're going with all of that software.

But it's not only the stuff that we develop. It's also the partnerships that we build and our composable ecosystem partners like Docker, Chef, Puppet, Ansible, those are all new - -, and including the traditional partners that we have, VMware and Microsoft. We're going to continue those partnerships and build out that set of partnerships going forward. So whether it's stuff that we're doing or things we're working with partners on, software is absolutely critical going forward to make hybrid IT simple.

MR. SIMANEK: So still core to the strategy. Another area we get asked a lot on is around the converged and the hyper-converged space. Obviously very fast-growing markets. I think it would be helpful for folks to understand sort of what are our capabilities and opportunities in that space.

MR. LEWIS: Yeah, I mean converged and hyper-converged, what a big opportunity for us. There's a lot of growth in that spot around private cloud. The hyper-converged space is a $2 billion market growing at roughly 30%, and our offering that we talked about earlier here is growing at almost twice that market rate, so we're really proud of that. And then the converged space is a $15 billion market growing at 12 to 13%, so there's a whole lot of opportunity for Hewlett Packard Enterprise there. And we have some strong offerings in this space that you heard a little bit about earlier that my group is completely proud of and excited about. The first is the HC 380, and we call it our VM vending machine, and the reason we call it a VM vending machine is because you can basically, like a VM vending machine, you put a coin in, you get a virtual machine out, and the software makes that user experience so simple that you don't need an IT staff to go and operate this machine. You can put it in a remote office, back office, branch office, and just regular people can deploy virtual machines and deploy applications. So really strong product, built on the world's number one server, the DL 380 from Alain's group, and it's important to note that that's also the world's number one virtualization server. So if you're doing a VM vending machine that's built on the number one virtualization server, you're actually in a pretty strong market position, so really excited about that.

And then we have something even more revolutionary coming out, the Synergy Composable Infrastructure system. And we've been working on this for years. A lot of innovation has gone into that, and we're way ahead of the market in this category. So the simple explanation for what it is, is it's the next generation of converged infrastructure. It went from converged, now hyper-converged, and it's all going go composable. Converged is simple because it's big complicated stuff at data center scale that we put together, test together, and say okay, use it like this, now it's simple. Hyper-converged is simple 'cause there's software on a smaller set of infrastructure designed to do one specific thing, usually VDI or virtual machines.

Composable takes those notions of simplicity at data center scale and does it in a dynamic way, which is really cool because that means you can deploy any type of workload, whether it's virtualization workloads, bare metal workloads, containerized workloads, all the workloads that are from the past and the future, run well on a Synergy system. And it has that simple interface to get at those capabilities inside the system. And it's dynamic. When you use resources, they get applied to a workload. When you're done using those resources, they return to the pool. So it's something that sounds kind of complicated, but if you really know what's going on, it looks a lot like a public cloud in your private cloud. And that's why we can do private cloud economics that compare to a public cloud. So Synergy, we think it's a breakthrough technology. We're really proud of it, and we think we're a year and a half to two years ahead of the competition on this, and the customers absolutely love it.

MR. SIMANEK: Perfect, great. And I think that actually leads nicely into the next question, which I think is, one of the areas I get pushed on a lot is the threat of public cloud. So think Meg touched on it a little bit before, but maybe you could just give us your perspective on some of the challenges and the opportunities that cloud presents to us.

MR. LEWIS: Yeah, sure. I mean it's well-known, and people talk a lot about the fact that public cloud is growing quite quickly. It's growing at about 20%. But what they're not talking as much about is the fact that private cloud is growing almost as fast. It's growing at about 17%, and it's on a lot bigger base of infrastructure, and that's where we're positioned so strongly to go in. We currently already have hybrid capabilities in our software. And what we found from our customers, the data I just told you, and when they give us feedback, we know that hybrid IT is going to win. So if we can make that super-easy for them to have on-prem and off-prem infrastructure that meets the needs of their workloads and have those seamlessly work together, we're going to be in a really good place. So the tools that we have already today, we have our Cloud System software that we talked about a little bit earlier. It can deploy against OpenStack, against virtualization paradigms, and it also does service provisioning for both Amazon AWS and Microsoft Azure today. And as we move forward, we're going to continue the level of integration and simplicity, and the amount of capability for workload brokering back and forth between on prem. and off prem. infrastructure. So it's an area of strategic investment for us. We're not afraid of it. We're actually gung ho about it because we know we can make these environments work seamlessly together.

And for those customers that say I just really want to ramp up my public cloud investment, we think we're positioned there, as well. We have a strong offering in our cloud line set of servers, and we've figured out the right cost model and economics to really make that work for the service provider industry, and we offer services.

Our TS guys offer services, if customers say, I want to get the public cloud, we can help them with services associated with how to move your apps, how to move your data, and how to make it work in hybrid. So whether it's private, public, or hybrid, which is where we think the holy grail is, that's where the big growth opportunity is, we're well covered and our customers trust us to help them with this journey.

MR. ANDY SIMANEK: Great, thank you. Alain, maybe moving onto you, another area that I think investors ask a lot about is, you know, in the more traditional center, I think there's, you know, a lot of pressures from a margin standpoint, and you've got, you know, increased competition from some of the newer Asian players, even our traditional players. How can HPE continue to deliver margin on our hardware products?

MR. ALAIN ANDREOLI: I understand that this is an interesting question probably for everyone, and as the market leader, I can tell you that we are being pragmatic, and we have looked at it. We have been very strategically and systematically addressing the risks, and we have embarked for the last few years in a strategy of segmentation.

So we've looked at the overall sea level, and then, we look at these islands of growth in the market where we can be value and islands that are now going to go to the cloud or the - - . By cloud, I mean private cloud, and this strategy has led to the discovery of a number of markets that have led our performance this year. So in SME, we're going after hyperconverge and appliances.

In the core enterprise, as Ric was painting earlier, the key issue here is how do I build the hybrid cloud or private cloud, and I build my flexibility on premise? So we build synergy. We build converge systems, and we're also building reference architecture so that we make it simpler for customers to use their IT on site.

For mission critical, we've basically reinvented the mission critical space with our - - platform, - - max. We're doing extremely well with SAP HANA. We're doubling - - . We have a little. We're also going with Microsoft on SQL and believe it or not, with - - . HPC is a renaissance. It starts from the federal business, where we're doing better and better, and now, it's going in a lot of commercial segments. We launch APOLLO, the APOLLO line, three years ago and now, we're acquiring HDI to become really the undisputed leader in the supercomputer space, as well.

With big data, we have 3PAR Flash. We are leading in internal storage, and we're attacking intra storage as a whole new beginning. For service providers, we've learned with Microsoft. We've learned with a lot of them, and we are now bringing the lessons with cloud line to the whole ecosystem that we call the Tier IIs and then, the Tier IIIs. OEM is integrating more and more IT, so we're going now with IOT, for instance, to the next rung here, and we are launching our - - talking business. So this segmentation value strategy is leaning us to keep and further increase valuable market share and we're very proud of it. Finally, cost, cost has got to be the essence, and we keep revisiting our cost structure, as Antonio explained, end to end, systematically.

MR. SIMANEK: Yeah, segmentation and cost, great. And maybe if we could dive into the storage market a little bit. So I think there's certainly some challenges there. I think that, you know, gravy is for us is we've continued to take share in that space and done quite well over the last couple of years. But maybe you can just sort of give us your perspective on where the market is going and how you see our opportunity there.

MR. ANDREOLI: So I just - - the storage portfolio in the company when Antonio reorganized the business, and I have to tell you, I am very proud of what we have done as a company in this space. You look at the top six vendors in the business, there is only one over the last 11 quarters who have been winning market share. We have won share 10 quarters out of 11, including the last one.

And you might ask, what is the reason? What is our secret? Secret is called 3PAR Flash is growing 70%. 3PAR Flash is growing 70% year on year, almost doubling year on year, and there is no reason that this will stop. Indeed, we believe this is going to continue. Splash is only representing 9% of the capacity of the data centers right now. There is a long way to go, so this is a long wave that we are all capturing.

We're trying to build from, you know, a second pillar from this lesson with 3PAR, and we're looking at entry storage. How can we play much stronger in entry storage? And entry storage, I'm talking like, you know, less than $10,000.00 a unit. And we have launched two new categories of product, a new NSA of which we have sold a half a million before, and the new StoreEasy. These two categories have a 40% cost benefit against what we had before. We think it's going to be very, very fast ramp up, as well.

And finally, we're playing on one of our strengths. You heard about convergence. Convergence means that basically, people are using a Class VI server rack to put more storage, and we are the leader of this market. It started with the large service providers, and now, it's pervading into enterprise, and in total, we are now the number one in storage, based on this integration.

MR. SIMANEK: Great, great. Another area I wanted to head onto, which I think you guys have heard quite a bit about today is partnerships, you know, very core to our strategy going forward. And so, recently, we announced a partnership with Arista, so maybe I was hoping that you could help us understand a little bit more, you know, what's involved in that partnership and, you now, what the benefits are for us.

MR. ANDREOLI: You know - - I love technology, the beauty of technology. Sometimes, you have a small company which comes in a very well established space and changes everything. And look at, you know, the big CISCO and the small Arista. Arista is raising a billion dollars in revenue, I think, this year, but they are growing more than 40% per year.

If you look at where they've been growing over the last few years, they have taken 10% of the data center networking business. At the same time, if you compare CISCO has lost 10% market share. So this tells you where they could get to by themselves. Now, why is it win-win? Because to scale to the next level, they need global channels. They need global to market. They need global service, and that's we bring.

So for them, we are the ammunition that allows them to get to the next level and take market leadership. To us, we are leaders in servers. We are leaders in storage, and we're going, as Ric explained, in software defined data center solutions. Well, this is going to be our foundation for networking centric data center solutions, so we are super excited. This is going to be the next big wave for us, Andy.

MR. SIMANEK: Perfect, great. Keerti, I may be moving onto you. So you come to us from Aruba. I think, you know, really bolstered our networking portfolio and gave us some great wireless capabilities. You know, maybe just some initial thoughts on, you know, how the integration's going. I think you've been here 18 months now, and you know, what you see as the growth opportunities going forward.

MR. KEERTI MELKOTE: Sure. I'm happy to do that. So it's been 18 months, as you said, and Aruba is doing really well inside HPE. As Antonio said, we are actually growing, you know, close to 20% year on year, and if you look inside that growth, where it's coming from, a lot of it is coming from our ability to penetrate the Global 2000, which we used to have a tough time as standalone Aruba. We're able to do that now, fundamentally because of the reach of HPE, and of course, Meg becoming our number inside salesperson, which has helped us a great deal.

Also, on the roadmap front, we are seeing good traction. We are basically about to enter the legacy HP - - portfolio, and the Aruba wireless portfolio into a single architecture, and we just launched the Aruba Mobile First platform, which we believe is going to be the next integration - - architecture, and this mobile first message is really resonating in the marketplace against CISCO.

And as we look forward, we still think there's markets that we've not yet tapped, like S - - segment, which I think we still need to take advantage of the reach that HP has, and taken together, we're really excited with what's happened so far, and we're really excited about the future, as well.

MR. SIMANEK: Great. And I think, you know, one of the things we talked a lot about today is the intelligent edge, which I think is sort a new term for some folks, so maybe you could give us a little bit more clarity around, you know, what exactly that is and provide some examples.

MR. MELKOTE: Yeah. The edge, I mean, to me, I think of it as anything--any - - infrastructure that goes outside of data center is the edge, and if you break it down basically, it's wherever users and devices are. And you know, I'll give you a few examples. One example is Levi Stadium. Antonio talked about it, where think of it as a large campus, where thousands and thousands of users are connecting over the Wifi infrastructure.

And in this case, it's typically the fans that come into the stadium and join the game, and connecting to the internet, Tweeting about the game, uploading photos to Facebook, etcetera. But at the same time, it's not just about providing great network connectivity in a heightened state environment like that, but also, enabling the owner of Levi Stadium to generate new revenues using things like location based services, we are able to actually generate new revenue that could pay for the infrastructure it he first year of operations. So that's a great story.

Networks used to be cost centers, and now, they're becoming revenue generating assets for our customers. In a similar vein, if you think about the branch office, there's--you know, think of Home Depot and Best Buy. These are stores we all go to. What we do there is provide the Wifi infrastructure and wired infrastructure to the store associates so that they can do things like inventory management, and they can do mobile point of sale, but also, we enable guest access.

Now, guest access is anonymity for the shoppers that walk in, but for the owners, right, for Home Depot and Best Buy, they get analytics. They get information about who's walking into the store, how often did they come back, how long did they hang out in the store, which aisles do they go and shop in? This is very interesting information to the marketers, so they can target their offerings better and look at their offerings better inside the store.

So again, the network becomes a revenue generating source, in addition to a cost center, right, which it was in the past. So I think those two are examples of where the edge is going to be, and I think the future is going to be around this industrial IOT, where we're going to be connecting things that are, today, not connected at all.

MR. SIMANEK: Great, yeah. And I think you just hit on, you know, the IOT, obviously, big buzzword out there, a lot of opportunity. What exactly does that mean for Hewlett Packard Enterprise? You know, sort of what are our capabilities there, and what can do going forward?

MR. MELKOTE: Yeah. And since the IOT is a very, very large opportunity, we think of it as a multi-billion dollar growth opportunity for us, you know, moving forward, and it covers pretty much all the offerings that we actually provide today. One example is flow service. Antonio talked about, right? It's a big oil refinery. Their customers are oil refineries, and one of the critical assets there are pumps. And now, these pumps today are basically not connected at all to the internet, and they require maintenance, so what happens is it's a completely manual process, where people go there and visit the pump, evaluate how it's doing and do a manual tuning of the pump, if you will.

Now, imagine if you connect that pump to the network, right? You get data from the pump about how the pump is actually operating and you can automate a lot of that predictive and actually predict when the maintenance needs to actually happen. To bring that to life, you need to connect the pump, so there's connectivity required. You need to secure that connectivity, so security infrastructure is needed, as well, and then, you need a place where you can collect the data, compute and provide controls back.

A lot of times, people think, well, that could happen in the cloud, but in this particular case, because of the real time nature of what needs to happen, the compute and the analytics needs to be local to where the pump is. And so, and the edge becomes basically you need to start the provision micro data centers at the edge with compute and store it and everything else that we offer, which is why, to us, the intelligent edge is a super exciting growth opportunity.

MR. SIMANEK: Perfect, great. So maybe moving onto to services, Rafa, and why don't we start with you? So our advisory and professional services capabilities, I think, are really core differentiators for us. But I don’t think they're widely understood or appreciated by investors, so maybe you could just help them understand, you know, walk them through an example of how we take our customers, transform them from where we are today, to where they need to be, going forward?

MR. RAFA BRUGNINI: Yeah, sure, of course. So first, I would like to just start at high level and summarize the three things that we do for customers in the four areas that Antonio mentioned. So the first one is we advise them. We help them understand what is the technology they should buy, they should invest in, what is the right multi-cloud strategy, how the legacy and the - - should coexist, and then, we define a tailored transformation journey for each of them. And our consultants use our tools and methodologies that we've been developing over the years.

The second thing is we create solutions, both ad hoc for a specific customer need, as well as proactively addressing some common business problems around many customers, and we do that anchoring on our - - technology expertise on some strategic ISV partnerships and throughout our solution factory methodology.

And the third thing that we do is we help them execute on that, on their specific transformation journey, to help them move from where they are today to where they have to be. And we do that using our very strong engagement and project management capabilities, and our expertise in our professional services that execute thousands of projects successfully on a yearly basis. And a couple of examples that come to my mind, so one is on the hybrid IT side is - - .

So we have devised - - and we help them design and implement their new architecture for their IPTD business, and through a standard cloud architecture, we helped them to move into an agile development environment that helps them to launch very fast new services in the market, and those services with specific features are differentiated and allow them to charge forward at premium rate and all of that at a lower cost, so this is a very good example, a successful example, of advisory and transformation, where you achieve the jackpot in the customer, increase customer satisfaction, increase revenue, new market share, and all at a lower cost.

The second example was on the edge. It's about creating a solution proactively addressing common problems around meetings. This morning, I wake up very early when I come to the West Coast. I read a statistic, very interesting. In United States, daily, we do 11 million meetings.

So we created a solution called intelligence basis for meetings, where basically, we're flipping the experience into a more Uber-like, so bottom line, by having a dynamic view on the status of the meeting room and the schedule, we're able to simplify enormously the experience and the efficiency for the entire meeting life cycle for employees.

And we calculate that we return two and a half weeks of time per year, per employee, just by avoiding all of the hassle of booking a meeting room and getting the technology to start up. And that is, on top of that, you have much better employee experience and a much better utilization of your real estate.

MR. SIMANEK: Yeah, some very good capabilities there. And Scott, I think there may be a couple of questions for you on the--more on the support side, and I think investors, you know, widely understand that, you know, it's the biggest profit pool in the company, so they're always, you know, very keen in what that business is doing. You know, certainly, there's been pressures over the last few years with the decline if BCS and some of the other, you know, legacy storage businesses.

But you know, basically, at the beginning of this year, you know, we told folk that we expected to return to growth in the back half of the year, which Antonio, very pleased to report that we did in Q3. And so, maybe you can give us a sense of, you know, why we're confident we can sustain that going forward, and maybe some comments around the margin profile there.

MR. SCOTT WELLER: Sure. So let me first reflect on Q3. You know, all of us were delighted to see this business finally return to growth, and this was after several years of really deep investments in service innovation, and then, in Q3, in total TS, we did deliver 1% constant currency growth net of divestitures.

And we saw that trend developing over the last 18 to 24 months in our orders picture, particularly in those places where we innovated in the proactive and the data center services where, in many cases, we saw double digit orders growth. So to answer your question about the go forward, it's really about continuing our innovation investments there, which are quite core and key to our hybrid IT strategy, and then, ultimately, driving the adoption of those services into the market.

We see a huge opportunity in white space there, so that's really central to the growth going forward. The other area we see growth is in the intelligent edge and services for the intelligent edge. And already, we're seeing great traction and growth in a number of services we've developed there, including campus care that we launched earlier this year.

And then, finally, I think everyone's interested always in BCS, and you know, BCS had been declining for many years. Now, BCS is a really small part of the overall TS business. It's stable with a long tail, so we really don't expect any disruption from that part of the business going forward.

MR. SIMANEK: Great. And maybe the final question for the panel here, Scott, I think, you know, we have some great customer satisfaction scores and support. Antonio, I think, showed the statistic MPS of over 80, and I think, a lot of times, you now, people think about services as just the attached to the hardware, but a lot of times, services can actually drive hardware growth, so maybe you can talk a little bit about that data link.

MR. WELLER: Absolutely. So first of all, I think we've done a great job with customer satisfaction, particularly if you think about how much cost reduction we've developed in efficiencies and so on, but I think it's important to understand what we're measuring when we say - - and MPS.

We're not measuring maintenance quality. We're measuring the quality of the overall IT experience, and that points to what we really feel is our charter, which is to deliver a very different IT experience, a very different way of experiencing IT, and we do that not just through service, but also, through products.

And an example is, you know, in our hybrid IT strategy, we really believe that customers need and want choice around where they land workloads, and for that to be viable, we are bringing the best of public cloud into the best of on prem., and delivering experiences like, you know, better agility, more simplicity, consumption models more like public cloud, and even bringing the infrastructure as code paradigm on prem.

So those are the kinds of things that we're doing as part of the services, and those are the things that we really believe differentiate HPE as we go forward. So if you look at the MPS score Antonio shared, that's what we're measuring. It's those kinds of experiences. I think the numbers speak for themselves, and ultimately, you know, in simple terms, when we make our customers happy, they buy more, and so, that's all good.

MR. SIMANEK: Yeah, perfect, great. Well, thank you, all of you, for joining me here today. So with that, we'll go a break. We've got about, I think, 20 minutes or so. We'll be back here at 3:30 for the start of the next session, the CFO review. Thank you.

[Applause]

[Background music]

ANNOUNCER: Ladies and gentlemen, please make your way to your seats. Our program will begin in five minutes.

[Background music]

ANNOUNCER: Ladies and gentlemen, please take your seats. Our program is about to begin.

[Background music]

ANNOUNCER: Ladies and gentleman, please welcome Chief Financial Officer, Tim Stonesifer.

[Applause]

MR. TIM STONESIFER: Come on. Come on. Alright. Thanks, everyone, and thanks for joining us today. So you know, I hope this afternoon has provided you with some additional insight around some of the announcements we've made, around the parts of the portfolio that we're excited about, and our strategy for the future HPE.

You know, we've announced some significant changes to our portfolio with the ES and software moves, and we do believe that these are the right moves for our customers, our employees, and our shareholders. And now, as you've heard from Meg and Antonio, we believe we have the right portfolio and the right strategy to achieve our vision of being the leading provider of hybrid IT and redefining the intelligent edge.

So what I'd like to do now is show you how that vision and that strategy translates to the financial performance. So first, I'm going to provide an update of our fiscal year '16 results, and we're on track to meet the outlook we provided last year, and from a capital allocation perspective, we've far exceeded our original commitment. I'm going to also provide you a little bit about our fiscal year '17 outlook.

And you know, our outlook next year is going to be a little bit more complicated, since we're planning to close two major transactions during the year, the spin merge of ES with CSC, and the spin merge of the software business with the Micro Focus. So given those transactions, we're going to give you three different views of fiscal year '17.

First, we're going to provide a view of the outlook as a combined company with a full year contribution from ES and software. Second, since '17 will be a year of transition, we'll provide a view of the results as they're actually going to be reported with partial year contributions from ES and software. And finally, we'll look at the future HPE, which will be a faster growing higher margin company with strong free cash flow in fiscal year '18 and beyond.

So first, our fiscal year '16 results. So while we have a couple more weeks left in the quarter, I'm pleased to say we're on track to deliver fiscal year '16 results within the outlook range that we provided this time last year. First, with respect to revenue, at SAM last year, we said that we expected revenue to grow in constant currency in fiscal year '16.

Today, we're on track to deliver top line growth of 1 to 2% in constant currency when you adjust for the recent divestitures. And while we've continued to face challenging macroeconomic and market dynamics, our increased focus on the key growth areas within our portfolio is paying off.

We saw growth this year in many areas of the portfolio, including high performance of compute, cloud line servers, all flash storage, and networking with Aruba. And for the first time since the second quarter of 2012, we saw growth in our technology services business. And at the same time, we continued to refine our cost structure and focus on profitable deals. We will not take share for share's sake.

For example, throughout the year, we've made operational cost improvement, as we right sized the enterprise group organization ahead of the software and ES spin mergers, and we've also stabilized our high margin technology services business, and enterprise services has made steady progress on its margin expansion goals.

Through cost actions and productivity improvements, ES delivered 260 basis points of year over year improvement in Q3 to 8.3%, and that's the highest level we've seen since the second quarter of 2011. So given this focus, we believe we'll deliver fiscal year non-gap EPS of $1.90 to $1.95, which is actually at the high end of our range.

And then, turning to cash flow, as we said on our third quarter earnings call, we expect to deliver free cash flow of $1.7 to $1.9 billion in fiscal year '16. That's below our original outlook, and that's due to the H3C divestiture; however, we have made very solid progress around optimizing working capital management throughout the course of the year.

So given our free cash flow generation and the cash we received as part of the H3C and Emphasis divestitures, we're on pace to return nearly $3 billion of cash to shareholders this year. And just as a reminder, that's approximately three times our original commitment at the beginning of the year.

So overall, fiscal year '16 has been a good year. We've made some significant portfolio changes to further focus and strengthen the company for the future, while at the same time, continuing to deliver the business results that we promised.

So now, I'll turn to our fiscal year '17 outlook, and as I mentioned, I'll lay out three different views. So first, I'm going to walk you through our outlook for the company as it stands today, including a full year of enterprise services and software. So in fiscal year '17, we'll continue to build on the progress we made over the past year and focus on the key business priorities, as you heard outlined today.

We'll continue to invest in key areas of the portfolio to drive revenue. Again, this includes areas like all flash storage, hyper converged, Aruba, composable infrastructure and services. And it also includes key areas of the ES and software portfolios, while they remain part of HPE. And at the same time, we'll continue our progress, aligning our cost structure across our businesses to drive profitability.

In EG, as you heard from Antonio, we'll continue to drive towards our vision of being the leading provider of hybrid IT, and with respect to ES and software, I'm confident that we can execute the announced spin mergers while continuing to deliver business results and as you heard from Mike and Chris, we're well on track in these efforts. And finally, we'll stay focused on delivering strong cash flow with significant returns to shareholders, and I'll spend more time on that in a minute.

So given these priorities, we'd expect to deliver the following results as a combined company, including a full year of ES and software. We'd expect revenue to be flat to down slightly when adjusted for currency and divestitures with top line pressure in ES being offset by revenue growth in EG.

Foreign exchange rates have been much more stable this year, with the exception of the weakening pound and the strengthening yen, but overall, we'd expect the impact from currency to be minimal to revenue, assuming that the current rates hold for the year.

And with respect to profitability, we'll continue to rigorously examine our cost structure and take actions to further align costs with our revenue, as well as offsetting pricing pressure. And as I mentioned earlier, we'll only continue to focus on profitable deals.

We should benefit from a stronger portfolio mix of higher margin solutions, like networking, converged storage and technology services, and we'll continue to introduce best in class innovation that delivers strong value to customers. Overall, we'd expect operating margins to be about 9.5%.

We estimate that OI&E expense, including equity interests, to be approximately $300 million, and the tax rate to be around 21 to 23%. And with a share account of about $1.7 billion in shares, we would have expected non-gap EPS of $2.00 to $2.10, and we would have expected gap EPS to be $0.72 to $0.82. And then, finally, turning to cash flow, as we talked about earlier in the year, we'd anticipate a normalized free cash flow level of approximately $3.6 to $3.9 billion. Now, this normalized level excludes the impact from restructuring and separation costs, and I'm going to give you a schedule on that shortly.

Now, with respect to EPS, there are a number of factors driving more than a 10% year--or $0.10 year over year improvement in fiscal year '17 versus fiscal year '16. First, there's a negative adjustment to account for the businesses that we've divested in fiscal year '16, including H3C, Emphasis and Tipping Point, and that has an impact of approximately $0.14 to $0.16.

Second, as you'll recall, we did have a favorable tax benefit of approximately $0.04 in the third quarter of fiscal year '16, which was really enabled by the divestitures we completed in fiscal year '16. We don’t anticipate that repeating in fiscal year '17. And then, on the favorable side, we have been aggressive with returning capital to shareholders through buybacks, and expected a lower share count to drive an $0.08 improvement in fiscal year '17.

And then, finally, we'll continue to execute the operational improvements that I outlined on the previous slides. Now, as I mentioned up front, in reality, '17 will be a transition year. We anticipate the ES CSC transaction closing on or around April 1st, and the software Micro Focus deal closing towards the end of the summer in 2017. So these two deals will impact our fiscal year '17, as reported results in a couple of different ways.

First, we don't anticipate having a full year contribution from either ES or software, so our full year as reported results will reflect partial year contributions from both of those businesses. And also, as we've expressed--and also, we'll have expenses associated with both deals that will impact our EPS and cash flows in fiscal year '17.

So now, I'll walk you through the view of fiscal year '17, so you can more clearly understand what to expect. So from an EPS perspective, we expect the enterprise services spin merge to reduce EPS by $0.37, and the software spin merge to reduce EPS by $0.12 in fiscal year '17, from the $2.00 to $2.10 that I laid out on the previous slide.

We've already begun working out the stranded costs associated with both separations, but we'll still have an impact of about $0.06 next year, but I think the important thing to remember here is we will have 100% of our stranded costs out on a run rate basis by the end of fiscal year '17.

So also, another thing to think about, although we're not going to give quarterly guidance today, when you build your models and consider the EPS contribution from ES and software, please keep in mind that both businesses are back end loaded, so a higher portion of their annual earnings comes towards the latter part of the year, so I'd incorporate that thinking as you update your models.

So turning to cash flow, similar to EPS, we have a number of factors associated with the spin mergers that will impact our free cash flow in fiscal year '17. First, free cash flow will be reduced by approximately $900 million, since we won't have a full year of cash flow from ES and software, and we also have some stranded costs in that $900 million, as well.

Okay. Go back. Okay. Go back. Okay, next page. I got it. Sorry about that, a little technical glitch. Next, we'll have some restructuring payments of approximately $700 million and separation payments of approximately $1.5 billion for both the ES and software transactions combined.

Now, keep in mind, the $900 million of the total separation costs between '16 and '17 associated with the ES transaction, that's been completely offset by reduction to our restructuring program that we announced last year. And then, finally, we'll have a payment of approximately $2.5 billion using offshore cash for the ES pension funding associated with the spin merge that will be reported in cash flow from operations.

So when we announced the deal, we agreed to transfer $600 million of net pension liability. That $600 million has two components to it. It has the unfunded liability, and then, the cash required to meet that funding commitment. When we announced the deal, the unfunded amount was $2.4 billion. Since then, interest rates have declined, primarily in the UK, and as you know, when interest rates decrease, the unfunded pension liability increases.

So that $2.4 billion increased to $3.1 billion, and as a result, to transfer the $600 million net liability, the amount of the cash required for funding has increased from 1.8 billion to 2.5 billion. So given tax considerations, we've decided to make the vast majority of the $2.5 billion funding payment prior to the transfer of the pensions to CSC, therefore, from a reporting perspective, this funding payment will be reflected in cash flow from operations like any other pension payment.

Now, with these factors, we expect as reported free cash flow to be approximately -$1.8 billion in fiscal year '17. And again, similar to the EPS, as you build your models, please keep in mind that Q1 will likely be the lowest quarter, due to normal business seasonality, the fact that we pay our annual bonus payment in the first quarter, as well as the fact that a vast majority of that pension payment will go out in Q1.

So let me take a minute to give you some additional context on how the pension payment fits into the overall enterprise value of the ES CSC transaction. So as we mentioned, we'll be making a funding payment of $2.5 billion to transfer $3.1 billion of unfunded liability. While the funding payment has increased from what we announced prior, the net $600 million has remained unchanged.

Now, keep in mind that we benefit in the long term, since the pension transfer will, one, reduce our future pension liability and funding requirements. Two, it does create some future tax benefits that we'll be able to utilize over time. And then, three, we'll be able to use offshore cash to fund the payments.

So also, as part of the deal, HPE will receive an onshore cash payment of $1.5 billion. That hasn't changed. We'll also transfer $1.9 billion of debt to CSC. That hasn't changed. And then, finally, our shareholders will still own 50% of the new company, but the value of that equity consideration has increased significantly from $4.5 billion to around $7.6 billion today.

So for HPE, while the pension payment is a large impact to our free cash flow in fiscal year '17, keep in mind that it's just one element of the ES CSC transaction and, overall, we still think it's a great deal.

So turning back to the puts and takes of our cash flow, you're looking at a fiscal year '18. We'll be very well positioned to deliver stronger and more consistent cash flow as cash payments associated with these separations are expected to be minimal. Here's our view of one-time cash payments in fiscal year '18 versus the two prior years. As you can see, without the ES business, restructuring payments will be significantly lower than prior years. In addition, after we complete the three most significant strategic changes to our portfolio, HPI separation, ES and software separation payments will be minimal on a go forward basis.

And finally, we don't anticipate another pension type payment after we fund the ES pension, which as I mentioned earlier, is being offset by CSC taking on $3.1 billion in unfunded pension liabilities. So the bottom line is we expect to have minimal separation and restructuring payments in 2018, and our free cash flow should approach normalized levels. And most importantly, for the future HPE, we will be set up to deliver consistent, strong cash flow with less risk over the long term.

So let me talk a little bit about our fiscal year '17 capital allocation priorities. So we're going to continue to maintain our disciplined capital allocation framework and we're going to continue to execute on an ROI based approach with a rigorous evaluation progress. So as a reminder, our main objective is really to source and deploy the capital that we generate to the highest risk adjusted returns for shareholders. So by definition, a returns based framework means that we're evaluating opportunities against one another to maximize value.

With that said, we want you to understand how we see fiscal year '17, given the line of sight we have today. So here are the key areas of focus, which quite frankly, are very similar to what we focused on this year. So first, we'll look to invest in growth areas with attractive returns. We continue to believe our future growth is dependent on our innovation pipeline, and launching great products and services.

Our preferred strategy is organic investment in key focus areas across the portfolio. Of course, we'll also consider inorganic investments through strategic partnerships or our pathfinder ventures program, and we'll also consider M and A in the right circumstances.

So strategic partnerships and investments through our pathfinder program offer a great opportunity to better understand what's going on in the marketplace, to test technology, and most importantly for us, to see if that technology scales, and it's also a great way to bring solutions to customers with a lower upfront investment. I think you've heard from Meg and Antonio about a great number of interesting partnerships we've made with companies like Microsoft Azure, Arista, Docker and others.

For M and A, we'll continue to take a disciplined ROI based approach, and consistent with our strategy over the past several years, we'll consider acquisitions at reasonable valuations that enhance our product portfolio, leverage our distribution, and drive profitable growth, and I think Aruba and SGI are great examples of the type of acquisitions we'd consider.

Our second area of focus is share repurchases. We'll maintain a bias towards share repurchases in fiscal year '17, as we believe our stock continues to trade at an attractive value. And finally, dividends will remain an important part of our overall capital allocation strategy.

So given our strong cash position today, the cash that we're going to receive for the software and ES transactions, and the underlying strength of our normalized free cash flow engine, we're committed to returning approximately $3 billion in total to shareholders in fiscal year '17.

So with all this in mind, here are the puts and takes of our cash on our balance sheet, just to again provide you some more insight and visibility. We expect to end fiscal year '16 with approximately $7 billion of operating net cash. In fiscal year '17, we'll receive $4 billion of onshore cash, with the CSC and Micro Focus transactions.

We'll also transfer $1.9 billion of debt to CSC. As discussed earlier, free cash flow will be a negative next year, due to the separation and restructuring payments, as well as the pension funding I discussed, but normalized levels are still very healthy.

We'll also use approximately $300 million of cash to acquire SGI. We expect that to close in the first quarter of '17. And with all these different factors, we'd anticipate ending the year with a balance of approximately $11 billion, roughly $4 billion above the anticipated ending balance in fiscal year '16. And then, even after meeting our capital commitment to return $3 billion to shareholders in '17, we'll end the year with an operating net cash balance of approximately $8 billion.

So now, I'll turn to the most important piece of the puzzle, and that's the future HPE. So following a separation from ES and software, Hewlett Packard Enterprise will be a faster growing, higher margin business, with strong cash flow in fiscal year '18 and beyond. The future HPE will still have significant scale, with about $28 billion, you know, we'll be similar to companies like Nike, 3M and McDonald's, and we play in a large market. You know, the TAM is at $250 billion in '16, and that's expected to grow to $270 billion in '19.

And as you heard from Meg and Antonio, we have a deeper and stronger portfolio than our competitors. We'll deliver innovative new solutions, both on our own and with our partners, to take share and target the growing areas of the data center and the edge. And it's also worth noting that about 30% of our revenue, but more importantly, 60% of our operating profit, is recurring, and that's primarily driven by the technology services business and financial services.

So the bottom lines are financial profile will be improved following the ES and software transactions. Here's the fiscal year '17 outlook for the future HPE, excluding ES and software for the full year, compared with a view of HPE as it stands today.

So starting at the top, we anticipate modest revenue growth in fiscal year '17, versus flat to down slightly as a combined company. So without that pressure from ES, we expect growth in key areas of the portfolio, like all flash storage, hyper converged, Aruba, composable infrastructure and services to more than offset the slower growth or declining areas of the portfolio, like traditional storage.

Turning to profitability, we expect our future HP operating margins to be higher at 10%. With all of the actions that I discussed earlier, EG and financial services will have a better margin profile than the combined company today. We estimate OI&E expense including equity interests will be approximately $200 million, which is lower, primarily due to the transfer of that $1.9 billion in debt to CSC.

And with a lower tax rate of approximately 20 to 22%, we'd expect non-gap EPS of $1.25 to $1.35 in '17, and we'd expect gap EPS to be $0.29 to $0.39. And on a normalized basis, we expect cash flow will be approximately $2.1 to $2.4 billion in overtime. We'd expect normalized free cash flow to trend in line with non-gap earnings.

So to wrap up, as I hope you've heard throughout the day, the future HPE will be a stronger company, even better positioned for the future. The company will be well diversified across business lines, products and geographies, and have strong recurring profit streams through technology services. It will play in faster growing markets and deliver better revenue growth.

Operating margins are expected to be higher without the pressure from ES, and with a strong product mix and continued focus on cost alignment. Our cash flow generation engine will be robust with lower risk, and we anticipate delivering close to normalized free cash flow in fiscal year '18.

And then, finally, given our healthy balance sheet, we're committed to returning a significant amount of the capital to shareholders while making disciplined investments for the future. So overall, we've got a lot of work to do. We've got to complete the ES and software separations in fiscal year '17, but I'm confident we can execute and I'm very excited about the future HPE. So with that, I'll turn it over to Andy.

[Applause]

MR. SIMANEK: Perfect. Thank you, Tim. So today, we provided a lot of information about HPE, our portfolio and our strategy going forward. So I hope you found it helpful and gained some good insight into how we think about the markets, where we're setting ourselves up to play, and how we're going to win in our target areas.

So as the stage is reset, the pit crew comes through here, I'll just go over a few housekeeping items before we get to that Q and A panel. So we'll have a number of mic. runners throughout the audience and the aisles with paddles. And so, if you have a question, just please raise your hand and somebody will come over to you, and we'll go through that for about 45 minutes.

And then, at the end of the Q and A session, we have a cocktail reception upstairs, so you can exit the same doors we came in and we'll have folks to direct you there. So with that, I'd like to bring back up on stage Meg, Tim, Antonio, Mike and Chris, if you guys will join me. Perfect. So we'll go ahead and open it up to questions. Get the first one, Kulbinder right there, yes, paddle six.

MR. KULBINDER GARCHA: Hi, it's Kulbinder from Credit Suisse. Just want clarification for Tim, and a question for Meg. On the free cash flow, on the consolidated basis, it's down about $900 million this year. Did any one time payments get pushed from '16 to '17? Can you just clarify that? I think that might have been what--because my numbers were different previously.

MR. STONESIFER: Yeah, yeah.

MR. COLBENDER: And then, for Meg, my question is that, I your presentation, you reference that in a couple of the slides that part of the vision involved continued portfolio optimization, I believe.

You also said in one of the slides that these transactions allow you further focus to look at the portfolio, and I guess one way of looking at this journey of HPE over the last few years is that you probably, in the end, started unwinding what was a highly inefficient technology conglomerate. You probably would never have chosen those words, but that's what's probably happened.

My question is that, going forward, is there further scope of portfolio optimization, or do you look at the businesses you have and think, they need to be together because they just need to be service - - networking, or will you still have this somewhat pragmatic approach to the portfolio? Thanks.

MS. MEG WHITMAN: Got it. You want to start?

MR. STONESIFER: So yeah, sure. So on the free cash flow, to your point, if you look at the restructuring and separation payments versus what we've been talking about, we have pushed out about $300 to $400 million to '17, so versus the third quarter earnings call, the question may be, well, so why haven't you sort of increased your guide, if that's being pushed out?

And it's really driven by three factors, one is we are seeing some impact as we've settled some FX contracts, and basically, what happens there is we have the cash--a payment that goes out this year, you know, get the benefit of that lower liability until sometime in the future. Financing receivables are up, driven by increased volumes and financial services, which, again, from a free cash flow perspective this year causes a little bit of pressure, but you know, that translates obviously into future revenue.

And then, lastly, we have had a couple of moving parts on the other assets and liabilities, which is very typical when you have the balance sheet the size that we have, but there's nothing structural in there that would suggest anything permanent.

MS. WHITMAN: Good. Then let me take the question. So we think that, actually, the portfolio we have within EG needs to be here and needs to stay together. So think about it, we are--I think one of the differentiators of Hewlett Packard Enterprise is we own servers, storage and networking, and what's happening is that of the structures becoming converged.

I think almost half our storage is actually shipped with servers today, and we anticipate that that will happen, so those definitely need to stay together. And then, secondarily, is our services business, which is tightly linked to the infrastructure business, and it works both ways. When we sell mission critical servers or high performance compute, or even our private cloud, it comes often with servers--I mean, with services.

It's a big attach, but increasingly, we're starting to see it the other way, as well, and the economics of this business would never really work if you didn't keep services connected to the core infrastructure business, and now, that's increasingly true in a software defined environment. So I think from an EG perspective, this is the end of the line.

MR. SIMANEK: Great. Can we have the next question, please, get at Maynard out there, paddle four?

MR. MAYNARD UM: Maynard Um, Wells Fargo. Can you just talk a little bit about how we should think about gross margins in the remaining co-business, once the ES and software businesses are spun off? It would strike me that the gross margins would probably be volatile, and I'm just curious how you would manage that, how we should think about that, and how you expect to manage that, quarter to quarter?

And then, just secondarily, maybe talk about competition in the market, when you show the growth rates of the end markets up there, any market that's growing typically tends to attract a lot of competition, so I'm just curious what the competition is like currently, and what you're embedding into your outlook. Thanks.

MR. STONESIFER: So I would say, you know, if you look at HPE and now, I'll give you sort of a long term financial architecture. You know, starting with revenue, you know, given the pipeline that we have, given the markets that we play in, we would expect to continue to grow revenue on a GDP-like perspective, in constant currency. And again, that's going to be focusing on the pockets of growth that the guys talked about earlier today.

And then, to your question around margins, on a margin perspective, if you look at op. margins, you know, we could see those going from the 10% that we're at today, those could go--over time, they could go to 11 to 12%, and the reason we feel that way is we acknowledge that there's going to be pressure on gross margins. Right? We know that more folks are going to the cloud.

We understand that the world is becoming more and more competitive from a pricing perspective, but then, when we look at our op. X, we feel that we still have opportunity, and it's a couple of different pockets. One, if we look at SG&A, we look at the corporate functions. You know, about 18 months ago, we went out and looked at benchmarks, and decided to drive the functions down to these benchmarks.

We're not quite there yet, and once we get there, I think that will be--that will help obviously. If you look at R&D, being more disciplined around R&D and focusing and investing in those pockets of growth, and then, lastly, on the go to market motion, as we continue to simplify that, we'd expect to get some productivity there, as well. So we think that there is room in the op. X piece to offset some of that, more than offset some of that margin pressure from a gross margin perspective.

MS. WHITMAN: And the other thing I would say, Maynard, and Tim mentioned this during his presentation, is gross margin is heavily influenced by the product mix, right? So Aruba has a much higher gross margin. Our storage has a much higher gross margin, so if we--our converged infrastructure, our hyper converged synergy will have a much higher gross margin, so we--so depending on what you believe about the product mix, that should also relieve some of the pressure on the core ISS gross margin business.

MR. SIMANEK: Yeah, so then, I think his other question was around just competition.

MS. WHITMAN: Oh, competition, yeah, yeah. So I think one of the benefits of becoming a smaller, more focused company is we are not fighting wars on quite so many fronts. And when people used to ask me about who is the competition for this company, I would go into a long line of different folks, whether it was talking about, you know, IBM and formerly CSC, and other's in Mike's business, or whether it was, you know, Service Now or EMC or BMC in the software business.

In the remaining company business, my view is this will largely be around certainly Dell EMC, certainly CISCO, certainly some of the Chinese vendors, particularly in Europe like a Huawei or a Lenovo, and so, but that's how I see largely the competition. From a technology services perspective, we are by far and away one of the most broad-based and leading providers of technology services, whether it's support or an emerging advisory and consulting area, as well, so that's the way I think about it.

Certainly, we see third party maintainers in the services business, but interestingly, that pressure has reduced somewhat over the last three or four years, as we increasingly provide IP in our services business, so that we are not quite so easily replaced by a third party maintainer.

MR. SIMANEK: Great. We have a next question.

MS. WHITMAN: And what I would say--I think you asked a question about what's built into our models. So as we have, you know, gained share in many, many categories over the last three or four years, we anticipate that that will continue on a modest rate, and again, what we're focused on, particularly in the server business, is share of profit pool, not necessarily share of units, and we've actually done a great job of increasing our share of the profit pool.

And as Tim said, we're not going to take deal for share shape for unit share shape. That doesn’t make any sense at all.

So you may see some moving around of the server share on a quarter to quarter basis, but just know we are like laser-like focused on increasing our share of the profit pool.

MR. SIMANEK: Great. Can we go to paddle eight, please?

MR. DAVID RYZHIK: Hi, David Ryzhik, Susquehanna Financial. Going back to the portfolio optimization question, Meg, you addressed enterprise group. How can we think about financial services, what your long term view is--

MS. WHITMAN: [Interposing] Yeah.

MR. RYZHIK: --and for Antonio, for HP Synergy, how can we model the materiality of that product in fiscal '17? Thank you.

MS. WHITMAN: Yeah. So HPEFS, first of all, is one of our best run businesses. In fact, it may have--when I came to HP five years ago, it was the best run business, and it is a--it's beautifully run with extremely low loss rates. And actually, there's quite a linkage between HPEFS and our enterprise group because it allows us to do things, one is provide financing for the enterprise group products, but perhaps more importantly, it allows us to price to customers on a consumption based model.

So Antonio, as you heard, has a fairly business within TS, which we call flexible capacity services, which actually allows us to give our customers what they love about cloud, which is a consumption based pricing model. Our customers like the multi-tenancy idea, and the higher capital utilization or asset utilizational cloud, but they also really like the consumption based pricing model. I would argue cloud has had as much technology innovation as it has business model innovation, so those two are pretty tightly linked.

MR. ANTONIO NERI: So I think to your question on how we should think about HP Synergy, so first of all, as I said, HP Synergy is a new - - . We are actually establishing that - - in the market as we speak. We already have hundred customers already using it, and ultimately, plays in different sectors of the market.

First, obviously, is what we think the generation of private cloud in a mixed workload. Second is a more efficient way to deploy hyper converge, and third, it's also much more efficient way to deploy traditional converge infrastructure.

And last but not least, we think, over time, nothing '17, but over time, as people deploy virtualized workload in traditional - - , they will start adopting this new technologies.

So I think you're going to see a - - going forward, and we expect over the next three years, when you look back in history, it takes two to three years to establish this - - to see the - - of that new what I think is truly a revolutionary and innovative type of infrastructure. And I think our goal is to really go at the enterprise first, and then, later on, in the service provider segment.

MS. WHITMAN: And let me add one thing to that. One of the benefits of focus is now, there is one go to market for our EG, and it's led by a guy by the name of Peter Ryan, who now has strategic alliances, as well as all of the go to market under his aegis, and that has created a simplification of our go to market, and that allows us to have an incubation sales team for things like HPE Synergy.

In the past, something like HPE Synergy would have sort of been injected to our broad-based EG sales force, who had overlays for software, overlays for enterprise services. Now, there will be an incubation sales force that will go after some of these new products, and I think that will actually help us scale these new categories faster.

MR. SIMANEK: Perfect, great. You - - Shannon here, in the middle.

MS. SHANNON CROSS: Thank you. Shannon Cross, Cross Research. I had a question as a follow up to the last one, and then, I had another one. Just curious, if about 70% of your recurring--your revenue is not recurring and you're moving to a consumption based model, how do you effectively offset the top line pressure from, you know, basically allowing your customers to buy as they use, as opposed to, you know, currently going in and buying the hardware?

And then, I’m just curious, Meg, if you can talk a little bit about your thoughts on leverage and what would preclude you from making a larger acquisition? I know you say you don't necessarily want to, but you know, you've dug HP out of a big hole, in terms of the amount of debt that the company had, or net debt. Is this a situation where you think the company needs, on a longer term basis, to run with a net cash position?

MS. WHITMAN: Yeah. So do you want me to do the technology capacity services? Yeah. So in many ways, although not to the degree in software, what you see in software and software as a service is actually depressing, to some degree, our licensed revenue, and we see that in our software business. To some degree, the same is true with the consumption based pricing model for our hardware business, but it is not to the same extent, but we manage that, and that is built--that estimate of how much that will be is built into our revenue projections of roughly growing at GDP-like growth rates.

So it's very much a factor, but I think we have that managed. We also sell that product, that consumption based product model--consumption based pricing model with TS. So that's another way we offset the, if you will, the one-time cap X that someone would otherwise have paid us.

The second area that you asked about is acquisitions, and I think actually we've covered it quite well in the variety of presentations. So part of our acquisition strategy is informed by what has worked well for this company, and if you go back, you think 3PAR, 3COM, Aruba, SGI, what do they have in common? They are complementary technologies that leverage or enhance our existing technology, and then, benefit from our go to market, whether that's our strategic alliances, our value added resellers, or our distributors, or our direct sales force.

And I thought Keerti said it very well that part of the reason that Aruba is still growing at a 20% compound annual growth rate is they have leveraged our channel, and they've leveraged the HPE halo in some of these big enterprise customers. So if you think about the upgrades that we're doing at many of the retailers around the world, then one of the CIOs told me, part of the reason we have the confidence to go forward with Aruba is because it was part of the HPE family, and we know that you will stand behind it. So that's how we think about it.

The other thing I would say is these acquisitions need to be well priced. It doesn't mean they need to be cheap, but they need to be well priced, and if you look at those acquisitions, I think they were well priced. They had higher multiples than we trade at, but they were not exorbitant multiples.

And that is why HPE pathfinder is so critical to us because there are absolutely new technologies that we need to bring into our solutions for customers because increasingly, we are solution selling as opposed to point product selling. We're driving business outcomes, and if we can't acquire a company, we're quite happy to make an investment in that company and bring it into our solution.

I think Shaft is a great example of that. Mesosphere is another great example of that, so that's how we think about it. And so, the aha for us, I think, over the last year or so is we don’t have to own everything. We can incorporate some of these new technologies into our solutions, which by the way, pulls more of our existing infrastructure and makes us even more relevant to the CIO.

MR. SIMANEK: Perfect, great. Question at paddle one or no, I'm sorry.

MR. AMADORE NANI: Hi, Amadore Nani [phonetic], RVC. I guess two questions. Tim, you talked about technology services being about 24% of revenues for core HPE. And then, you talked about 30% of revenues are reoccurring. I'm curious, what's the extra six - - basis points that's reoccurring for core HPE?

And then, Meg, over the last two years, I think you've talked about how you guys have benefitted through all the volatility at IBM and the Dell EMT transaction. Now, that you bring to your own server transitions the divestures, how do you keep the focus? How do you ensure you can get to the growth model that you guys talked about for core HP?

MS. WHITMAN: Yeah.

MR. STONESIFER: So on the recurring piece for us, the two big pieces are financial services and technology services. Those are the two components.

MS. WHITMAN: So it's quite a good question, and I have to say, I think we're getting pretty good at this. Interestingly, the HPI and the HPE went off with really out a hitch. We continued to focus on customers. We delivered FY '15, and obviously, are delivering FY '16. So we just have to do it the exact same way, and the way we do it is we have a divestiture management office.

Now, we have two, one for software, and one for ES that is staffed largely by people for whom that is their major job. All of our go to market executives, our technology executives are all focused on delivering for customers, and there is separate people for separate activities.

What I will say is it is putting some train on Tim's finance organization and John Schultz' legal organization, and Alan May's HR organization, but the core of the business, the running the business, the selling, the customer service is actually rather untouched.

And I have to say, the other thing we've gotten very good at is communication, communication with customers, communication with partners, internal communications because, when you're going through this kind of change, you cannot over-communicate.

And what's interesting is, and Mike and I were discussing this the other day, you do all the communication on the launch of the CSC, ES transaction, and then, you've got to keep coming back, and coming back, and coming back, to keep people informed and feeling like they know what's going on. So listen, I've got a lot of confidence around delivering FY '17, notwithstanding that we've got two big transactions that we have to do, and largely because we've done it before.

MR. SIMANEK: I mean, to that point, I would give a shout out to Mike and his team. If you think about what the ES team has done this year, given the announcement, and given the volatility, I mean, it's a very emotional thing, right, and at the same time, they have still been able to expand those margins. So you know, it's a great compliment to Mike and the team, and we'd expect that same thing as we go through software, as well.

MS. WHITMAN: There's also an interesting hidden benefit here, is this allows us to be in front of customers, and I've probably made, just since the software acquisition, I don't know, Chris, have I made like a hundred customer calls?

MR. CHRIS HSU: She's our chief sales officer.

MS. WHITMAN: And that's actually been an opportunity to talk about the strategy for the remaining company, the leadership team, the innovation, and so, there's been some benefit in that regard.

MR. SIMANEK: Great. Go to paddle six, please, Toni?

MR. TONI SACCONAGHI: Yes, it's Toni Socconaghi from Bernstein. I have a couple of questions, I guess, one for Tim and one probably for you, Meg. Meg, you've talked a lot about this being an industry that is mature and would invariably consolidate over time. And so, if I think about large enterprise IT players today, I think of at least five players who are bigger than you. I think of IBM. I think of Dell EMC. I think of CISCO. I think of Oracle and Microsoft.

And so, you're a number six player in an admittedly self consolidating industry, a mature industry. I guess the question is, do you think this industry--you think all six of these companies will be around in three or four years, and if there is consolidation, why wouldn't HP, as it is today, be likely the most bite-sized piece among that group?

MS. WHITMAN: Yeah.

MR. SACCONAGHI: And why is that--why is not a consolidation of HPE with a larger brethren at least something that's on your decision plate as a CEO? And then, Tim, I'll just rip them out here, and then, sit down. Tim, you talked about remain co. being $1.25 to $1.35 in fiscal '17. You had also talked about there being stranded costs in fiscal '17.

So are those stranded costs actually in remain co., so remain co. ex stranded costs are exiting the year is higher than that, or have you attributed the remaining, the stranded costs to, you know, the consolidated HPE, in which case, you're really--remain co. is ultimately exiting at that $1.25 to $1.35 and 2.1 to 2.4 billion? So if you could clarify that, that'd be helpful. Thanks.

MS. WHITMAN: That's a quick answer. Do you want to go first?

MR. STONESIFER: Sure. So the stranded costs that will be worked out, those are not in the $1.25 to $1.35, so that's a pure run rate type of number.

MS. WHITMAN: So your question about industry consolidation, so the way I think about this is we, you know, increasingly, we do not see IBM as a big competitor of ours, nor do we see Oracle as a big competitor. Yes, they have a slight overlap with us in exit data, but we don’t see them a lot as a competitor.

And then, Microsoft is actually more of a partner, frankly, than a competitor, particularly with the spin merge of our software business. If there was any competitive rub with Microsoft, it was really around our software portfolio. So I see those three as really entirely different businesses than our data center business, whether it's traditional software defined, or the intelligent edge.

With regard to the other companies out there, listen, I mean, if we get approached, we'll of course think about it, but my view is we have advantages right now of being nimbler, faster, and more focused. And I am looking forward to this in many ways because I think we have so much benefitted by the separation of HPI and HPE. I mean, these two are much stronger companies with unique capital allocation strategies, with a much enhanced ability to go deeper with customers, with technology.

And so, what remains to be seen is, can we be a PT boat that moves faster, that responds faster, that has more focused and targeted innovation, and therefore, allows us to grow faster than the overall market? But listen, we're, you know, sophisticated businesspeople. If someone approaches us, we'll evaluate. The board will evaluate whether or not that makes sense, and we'll decide at the time.

MR SIMANEK: Great. Next, we've got a question. Jim Suva, please?

MR. JIM SUVA: Thank you. It's Jim Suva from Citi. A clarification, Tim, I just want to make sure the normalized EPS you gave, that includes pulling out the software and ES for the entire year, not just that date going forward. I believe that's correct, a clarification. And then, the question is, you also mentioned you'd like to grow the dividends.

This is an opportunity to grow the dividends, but yet, my math, unless I’m wrong, it looks like you're not growing your dividends because you give an outlook here and we have anniversary, and now, your separation. So can you help us understand that disconnect about not growing the dividends?

MR. STONESIFER: Sure. So from a dividend perspective, you know, we gave $400 million of dividends in fiscal year '16. We'll do another $400 million of dividends in '17. If you actually look at the yield, the yield has increased, but, you know, dividends are an important part of the overall capital allocation strategy.

And again, as we talked about earlier, we're going to continue to look at all options, and we will look at sort of a returns, risk adjusted returns to shareholders, and you know, that will be part of the overall allocation discussion, capital allocation discussion that we have on quite a regular basis, but right now, we feel comfortable with the $400 million.

MR. SIMANEK: And then, maybe clarify the three different outlooks that you provided today. I think that's what his question - - .

MR. STONESIFER: So the first outlook was HPE as it stands today, with a full year of ES and software. The second outlook was HPE as reported, so it's going to have partial cash flows, partial EPS - - software, and ES, and again, the key assumptions there, ES gets completed at around April 1st, and software gets completed at the end of August. And the last one is just a standalone HPE new co., if you will, without any ES or any software.

MS. WHITMAN: Sort of almost as if '17, we were starting on November 1st without ES or software, so that gives you like what '17 would have looked like as the standalone company will look after we close these two transactions.

MR. SIMANEK: That's the $1.25 to $1.35.

MS. WHITMAN: Yeah.

MR. SIMANEK: Yeah.

MS. WHITMAN: And we really wanted to give you all three scenarios, so that you could evaluate theoretically what it would look like if we had software and ES for the whole year, what it would look like when we think the transactions will actually close, and then, a really clear view of what new co. will look like without ES and without software.

MR. SIMANEK: Great. Can we go to Katy here in the front?

MS. KATY HUBERTY: Thank you, Katy Huberty, Morgan Stanley. Tim, back in August, you characterized that the ES business as using cash, the software business as generating cash, and those two sort of offset each other, yet, you're talking about a normalized free cash flow, the remaining business, that's well below that high three billion range, so can you just explain the difference in those two comments.

And then, a follow up on remain co. Tonight, Intel talked about extra weakness that they're seeing in the traditional data center market, which you clearly have exposure to in the server business. If servers don't grow over the next couple of years, do you still believe that the company and the other segments can drive low single digit revenue growth?

MS. WHITMAN: Yeah, so you - - first one?

MR. STONESIFER: Yeah, sure. So on the free cash flow, what I would do is, if you take the normalized free cash flow of call it 36 to 39 all in, and then, you go to our scenario three, where the remain co. of 21 to 24, you've got about a delta of a billion five.

So I think the easiest way to think about it is if you look at ES and you take their op. profit, sort of as a standalone, if you will, I would throw in a couple hundred million dollars of overhead costs that don't get allocated there, and then, tax affect it, so take our average tax rate, and then, that will get you sort of a cash flow type of number.

And I would do the same thing for software. Use a smaller number for the overhead because it's a smaller business, and that sort of makes up the delta of the billion and a half with no restructuring, no separation, just kind of a pure run rate type of number.

MR. SIMANEK: I think the key there is that normalized pulls out the restructuring and ES has obviously been a very heavy user of restructuring over time. Yeah.

MS. WHITMAN: Yeah. So do I expect it to grow if servers continue--if servers decline more than we've thought through? So listen, we have modeled the movement of workloads to various types of clouds, whether it is--whether those workloads stay locked down in a data center, whether they likely go to a private cloud, a managed service, or a public cloud.

And what that does is it puts some pressure on revenue, but actually, there's huge demand for compute and storage, and actually, networking from the tier one, tier two service providers. The challenge is, of course, those are at lower margins than our traditional ISS business, so the data center pressure comes more from a gross margin perspective in ISS than it does in a revenue perspective, and there's plenty of revenue to take. We just have to decide when we want to take it, and when we don't, based on the profitability to us.

So I think we have actually quite well incorporated the pressure that we are likely to feel from ISS, given public cloud and giving managed services. Now, what I will tell you that may be changing to some degree is our ability to deliver cloud-like economics on prem. in a private cloud, and you heard the example of Dropbox.

I can tell you, there are a number of financial services institutions that are now getting AWS-like economics on prem. with the control, the security and the customization capability that they want. I'm not saying that's going to stop the trend, by any stretch of the imagination, but there are now options that we have to present to customers that we didn't have a number of years ago.

I'll also tell you that these big enterprise customers, the move to the cloud, to the public cloud, is more complicated, I think, than they originally thought. You might remember a couple of financial services institutions four years ago saying we're going to move all of our workloads to the public cloud, and they have moved exactly 2% of their workloads to the public cloud.

So our view is this is very real. We've got to compensate that by making sure that we are the leader in private cloud on prem. with public cloud-like economics that we enable in multi cloud hybrid IT environment, which I think is absolutely the reality, and then, exploit those new pockets of growth, whether it's software defined or the intelligent edge, so that's how we think about it.

MR. NERI: So Meg, I would like to add one thing because it's important to understand some of the trends. So obviously, in - - the pressure, but they are looking at the CPU level. We look at the system level, and what we see today are traditional enterprise average unit price is actually going up. Why is it going up? It's because these servers now have a ton of memory and a ton of storage that goes with it. And this is where I talked earlier about capturing the profit pools.

And so, it's not just about the CPU. It's about everything that's associated in the option of the servers to drive the density, the compute per power, and obviously, the space reduction that people are looking for. So when I look at that, actually, our - - price has gone up quite significantly because we are the best in optimizing the system for the workload and giving them more optionality, have they deployed that infrastructure, and that's why we see a revenue profit share going up, compared to some of the other vendors, not just at the CPU level.

And then, we talk about the other pockets of growth, and when you think about high performance compute, they are larger, you know, average - - price, which has a lot of components as - - with. And last but not least, Alain talk about the renaissance of mission critical. You know, in the past, we used to look at that as Unix business, when you think like a lot like Sequel, I think about a - - .

We see a tremendous growth there, which obviously comes with a different type of average - - price and attach, so don't think about Intel as a unit per unit. Think about what goes in the server and how we drive, grow - - like growing our service price.

MR. SIMANEK: Great. Can we go paddle five, please?

MR. ROD HALL: Hi, thanks, Andy. It's Rod Hall with JP Morgan. I just want to point out this would be the world's largest PT boat, Meg. So my question kind of--

MS. WHITMAN: [Interposing] Maybe it's all relative to the $110 billion company that I was running when I got here.

MR. HALL: Yeah, and the addressable market you guys talked about is growing at 2 to 3%, and you're saying that the top line growth of the eventual business is GDP-like, which doesn't suggest PT boat-like share gains, and so, I'm wondering, are you thinking there's an interim period where you have share you're seating in certain parts of the business, and then, offset some of the higher growth stuff, and then, you accelerate growth or, you know, why not be more ambitious about the share gains and the growth, I guess?

MS. WHITMAN: Yeah. I think a couple of reasons is that we still have some declining businesses in the portfolio, in the traditional storage business. Listen, tape is declining. There's a number of businesses that are still declining, fewer than when we first got here, and it will be even fewer as we become a more focused company.

And listen, we certainly hope that we can do better, but I want to be very realistic about the pressures that we see in the marketplace, both from a revenue, but more of a margin perspective, and we are just now at the beginning of the--if you will, the innovation renaissance of the remaining company.

And I hope you guys can see what the benefit of focus is, just by this meeting. I mean, we've now given you more perceptive on our services business, on our, you know, next generation of software defined, the intelligent edge, so we may, over time, be able to grow faster than that, but I also want to make sure that we're managing expectations and, frankly, we're managing our cost structure for what I think is a realistic revenue trajectory.

MR. SIMANEK: Okay. Paddle seven.

MS. SIMONA JANKOWSKI: Hi, thank you. Simona Jankowski with Goldman Sachs. We didn't hear much today about security, so I just wanted to revisit that subject, in terms of is that something that you think is best to address through partnerships, or do you need to own that at some point? And then, second question on the intelligent edge.

You talked a lot about the industrial IOT opportunity being a $14 billion TAM. Is that something that you sufficient addressed today with Edgeline or is that an area that you're going to be introducing more products in, and then, similarly, on the campus and - - site, where you talked about time to market advantage with Aruba, and coming out with an innovated storage and computer portfolio there. What is the timeline for that?

MS. WHITMAN: Yeah. So why don't you take the first question?

MR. NERI: Sure. So we believe that, you know, when we think about the opportunity, right, going forward, we believe we are well-positioned to capture that opportunity. So let me start first with the edge, okay? Edgeline is a platform. It's not one product. We actually have multiple solutions underneath, and they're all designed for different type of workload at the edge.

The example I'll give you with flow serve was an example using a specific platform; however, we have other platform in this hundred plus products, in these hundred plus POCs that they're leveraging different type of design. Some customers wants more compute, less storage. Some want more bandwidth, connectivity and so forth. So don't think about it as - - product, but a platform of products and solutions with big data analytics built in.

Second, security, we actually think about security from the grounds up, not as an overlay that runs on top of because we believe that adds overhead and costs that are not necessary. So when we think about security, we are building security within the platform. The next generation of servers and storage you're going to see will have tremendous amount of security built in.

The work that Ric Lewis is going to do and keep doing today is actually around building security in that stack so that we can manage those workload with the right security already in the way you run the operations.

Now, obviously, we don't have the right partnerships, where it's necessary because, you know, there is one security company being created every day, and the reality - - niche type of security solutions - - built in the stack, built on infrastructure, and then around that ecosystem with the right partnerships. In fact, some of those are actually with Mike and Tim.

And then, on Aruba, Aruba, the core, right, is a software company which actually has security as a core tenant of the strategy. - - to talk about how we provision wireless access without clear path solution. One of the key differentiation is actually security because we provide you ubiquitous access with the right security and privacy management.

And then, you will see more software defined elements of that, particular in the area we see now growing very, very rapidly called software defined one. When you think about, you go to a store, a new retail--a retailer wants to open a new branch.

Today, it takes a tremendous amount of work to provision MPLS circuits, all the - - that's required. We believe that it's a much more better way, software defined to deploy a solution in a box, to push a button and be online, delivering those services right away. So that's the way we think. We secure it imbedded at the core, not as an overlay.

MS. WHITMAN: Let me add one thing to this. So we actually think that a huge amount of compute and storage is actually going to move to the edge. That's a core belief. We ought to own compute and storage at the edge. There's no question about it. Edgeline is the beginning. It is the beginning of a platform, but I would say we are at the beginning of the beginning on the industrial Internet of Things and moving compute to the edge.

Farther along, obviously, Aruba's been around for ten years making enormous progress, but we now have consolidated our edge and our campus and branch under Keerti, so the Edgeline compute, he actually works with Alain very carefully to build that, but he is now in charge of that entire campus and branch--campus, branch and edge business unit, which I think is going to allow us to go much faster.

MR. SIMANEK: Great. Question in the front?

MS. WHITMAN: Three and four. Four has been waiting.

MR. SIMON LEOPOLD: Thanks. Simon Leopold with Raymond James. A few months ago, you had a favorable ruling on a court case with Oracle, so a $3 billion award. I assume that's under appeal, but you haven't talked about the scenarios. So if we think about '17, if you continue to have the favorable ruling, and you have $3 billion that's not shown in the bridge, what do you do with that money?

MS. WHITMAN: Yeah. Well, I mean, I’m tempted to bring up our general counsel to talk about the status, but I thinks yours is a hypothetical question, which is if we were to get the 3 billion. So listen, we would just think about it in the same way we think about our balance that we expect to have, which is a returns based, very disciplined capital allocation strategy, which is with a bias toward share repurchase, because we still think our shares are trading relatively low.

We think there is growth. We think there is margin expansion embedded in our core business, and we think we're going to benefit a lot from focus, so it would just be that we would put the exact same way, that we've thought about the cash in the past, and Tim pointed out, we went into last year thinking we would return about a billion dollars to cash, and we returned 3 billion, and so, that seemed like the right thing to do.

MR. LEOPOLD: Do you have a view today of how the appeal will turn out?

MS. WHITMAN: I think I'll let our general counsel speak to that.

MR. SIMANEK: Can we get him a mic., please.

MR. JOHN SCHULTZ: Thanks. So we are optimistic about our prospects for succeeding on appeal, although the courts move very slowly, so we are not expecting a resolution to this matter in FY '17.

[Laughter]

MS. WHITMAN: I’m really glad I called on him.

[Laughter]

MR. SIMANEK: Can we get paddle four, please?

MR. JASON NOLAN: Thank you. Jason Nolan with Baird. I wanted to ask about Azure, and the relationship was mentioned a couple of times today. How important is it today? How important could it be? Are there any goals in financials that you could wrap around it? Is there any go to market motion with Azure?

How would you update the street on the relationship, as we move into F '17, and then, in the same vein with the recently announced partnership between AWS and VMware, and how does that--any thoughts there, as it would relate to HP? Thank you.

MS. WHITMAN: Sure. Well, Antonio, why don’t you take the relationship between Microsoft and Azure. Antonio's been the lead person on that relationship. What I will tell you is the relationship between Microsoft and Hewlett Packard Enterprise has never been better. This is a very well-oiled machine, starting from the country level and go to market, all the way up to the most senior levels of the company, but you might give a little bit more.

MR. NERI: Sure. Well, I think, Meg, you talk about the importance of this relationship. I think it - - the core beliefs, and the alignment on core beliefs are spot on. Microsoft believe, with Azure, but with partners like HP, this is going to be a hyper - - . So the two visions are very well aligned.

We are the largest partner for Microsoft today. In fact, we sell with, to and through them many of our offerings. And so, we continue to evolve that. Let me give you a couple of examples. We believe there is a big opportunity to evolve customers to the next generation - - basis with Sequel, so we have a joint go to market there, to push Sequel with our platforms, like Super - - Max.

With Azure of today, actually, when you buy a server, you actually get a token to activate Azure immediately from your server, so the business model that they have is actually an opportunity for us to capture, as we implement this multi cloud hyper - - world. But also, we're doing co-engineering, co-innovation together in that stack, so when Azure comes with Azure stack, together - - .

We're going to actually provide that differentiated experience in the way you service broker because, in the end, it's not just being able to move workloads back and forth, but also, what services goes on top of that. So I believe that relationship has never been better. Meg and I spend a lot of time with - - talking about the future, and ultimately, what problems we're trying to solve together for our customers.

Now, Peter Ryan, which is sitting here in the front row, is our chief sales officer, and he drives the - - and the governance to make sure together with this partner, which is - - on the Microsoft side, we drive the joint go to market at the country level, at the customer level, to really deliver the vision together.

MS. WHITMAN: Yeah, and with the, you know, I think, increasingly, we see worlds of coop, but coop-etition. Sometimes, we compete, and sometimes, we cooperate. There's no question that, you know, sort of the EMC, Dell, VMware access now with AWS, we're seeing, you know, - - to Microsoft, the HP, and of course, now, with our partnership with Arista as another access in the marketplace. But listen, we still sell a huge amount of business together with VMware. You know, we're one of VMware's largest go to market partners. We anticipate that that will continue. We talked about our multi-cloud strategy. Obviously, vCloud is one of the multi-clouds that we will embrace. So there's a coop-etition there, but I would say, you know, even preceding this most recent announcement, the Microsoft HP relationship is super important, I think, to both companies.

MR. SIMANEK: Great. Can we go to paddle one, to Etai?

MR. ETAI KIRON: Thanks. Etai Kiron [phonetic] from Oppenheimer. First, just a clarification on Oracle. It was my impression that that award will be split with HPE, and correct me if I'm wrong, so only half, I guess. IRS takes another half from what's left, but I want to focus on the M and A.

You've had a very successful, under your leadership, M and A strategy, and you kept it small and focused and incremental, and it has worked out quite well for you, as opposed to the things you've done before you've joined. My question would be, once you're done with the spins and you are more of a infrastructure focused company, there's no way around that.

Is there room to consider things a little bit bigger than what you've done in the last three or four years? And I’m not talking autonomy, the 10 billion plus type of deals, but there's still a lot of room to grow, between 3 and 10, and there's just not as many available good assets out there left--

MS. WHITMAN: [Interposing] Yeah.

MR. KIRON: --at that sub-3 billion mark--

MS. WHITMAN: [Interposing] Yeah.

MR. KIRON: --kind of sweet spot that you've been talking about. So how do we think about that? Is there room to be a little bit more--to push the envelope on that a little bit more? And the second question is around the operating margin of the remaining business. I think you've talked about 10% as the operating margin. Why 10%? If I'm not mistaken, enterprise group is in the 13, 14, and the financing business is in that 10, 11? Why the blended lands at 10?

MS. WHITMAN: Yeah. Well, let me talk about the acquisition arena. So first of all, while certainly a big part of our business is infrastructure, I wouldn’t want you to take away from this that we are no longer in the software business, and we're no longer in the services business. In fact, we are, 8 billion of the 28 billion will be in services, and system software is absolutely critical to our go forward strategy.

So yes, there is a big chunk of infrastructure, but think about it as the whole company becoming more software defined from a system software perspective. As Antonio said, Aruba is really a software company with a security layer. So listen, as I said, you know, 3COM, 3PAR, Aruba, SGI, there are not many companies that fit that characteristic, but as companies come along, we will certainly evaluate them. And what I would just say is returns based discipline appropriately priced.

And what we're not interested in is a very big acquisition that is potentially, you know, negative margins, and there are so many companies out there that are, you know, $20 million in revenue, losing $150 million trading at an ADPE. That's not our business. We're not going to do that. If we feel like that is important from a technology solution perspective, we might make a $5 million investment and incorporate them into our solutions. So that's how you should think about it.

MR. STONESIFER: Yeah. And as far as the 10%, it's really a mix effect, and if you think about software, software does have very high margins, so when you pull that out, that sort of normalizes the 10% number, so it's really a mixed thing.

MALE VOICE 1: - - .

MS. WHITMAN: But it doesn’t have the allocation.

MR. KIRON: EG standalone had 12, 13. You've talked about it getting back to 14 hopefully operating margins, and the financing business is 10, 11, so why are you - - of those two--

MR. SIMANEK: [Interposing] You've got the corporate overhead and all that stuff in there, as well.

MR. STONESIFER: Yeah, it's that you have to take into account the - - allocated corporate costs, and the corporate investment segment, as well.

MR. KIRON: Could the financing business ever separate from the hardware business?

MS. WHITMAN: Well, it could separate logistically. As I said before, there's a relatively tight linkage between the financing business and the enterprise group, and what we have to make sure is that the capability to sell on a consumption based model remains accessible to our customers because, increasingly, that is a big demand, and it's a point of differentiation for us, so think about this linkage being pretty tight.

MR. SIMANEK: Okay. I think we have time for one more question. Can we go to paddle six there?

MR. NATE LITTLE: Hi, Nate Little [phonetic] from Columbia Threadneedle. So you're very specific when you were outlining the spin merger transactions that you're going to be using offshore cash and receiving onshore cash. So how do you think about the balance of what does remain co. look like from an on/off cash generation profile? And then, how do you balance that with what you've called a strong balance sheet? So on a go forward basis, is there going to be a mismatch of what your shareholder return profile looks like versus what your cash generation profile is?

MR. STONESIFER: Yeah, I would think even a remain co., I mean, a majority of our cash is offshore. Now, we've been able to work that efficiently through intercompany loans or things of that nature, to allocate it where we need it, but obviously, if you look at that $8 billion, you know, 4 billion of that will be onshore, so while we have that, we'll be disproportionately high, but sort of on a run rate basis, a majority of our cash will be offshore.

MS. WHITMAN: Which is actually not different than the company's been for the last, I don't know, certainly since I've been here, and we're actually quite good at being able to move that offshore cash onshore, but for tax reasons, a big chunk of our cash is generated offshore. So actually, it will look better in the next couple of years than probably have flipped in the last five.

MR. SIMANEK: Perfect, great. Well, I think that about wraps it up today. So thank you everyone for joining us. As I mentioned, we'll have a reception upstairs, so if you head out the doors you came in, we'll have folks that'll direct you there. But thank you very much. Appreciated having you.

MR. STONESIFER: Thank you.

[Background music]

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