Hewlett Packard Enterprises

Fourth Quarter Fiscal 2021 Earnings Conference Call

Tuesday, November 30, 2021, 4:30 PM Eastern

CORPORATE PARTICIPANTS

Antonio Neri - *President, Chief Executive Officer*

Tarek Robbiati - *Executive Vice President, Chief Financial Officer*

Jeff Kvaal - *Investor Relations*

PRESENTATION

Operator
Good afternoon and welcome to the Fourth Quarter Fiscal 2021 Hewlett Packard Enterprise Earnings Conference Call. My name is Gary, and I'll be your conference moderator for today's call. At this time, all participants will be in listen-only mode. We will be facilitating a question and answer session toward the end of the conference. Should you need assistance during the call, please signal a conference specialist by pressing the "*" key followed by "0." As a reminder, this conference is being recorded for replay purposes.

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

Jeff Kvaal
Well, good afternoon, everyone. I am actually Jeff Kvaal of Investor Relations, I am filling in for. Andy today. I'd like to welcome you all to our fiscal 2021 fourth quarter earnings conference call with Antonio Neri, HPE's President and Chief Executive Officer; and Tarek Robbiati, HPE's Executive Vice President and Chief Financial Officer. Before handing the call over to Antonio, let me remind you that this call is being webcast. A replay of the webcast will be made available shortly after the call for approximately one year.

We posted the press release and the slide presentation accompanying today's earnings release on our HPE Investor Relations web page at investors.hpe.com. As always, elements of this presentation are forward-looking, and are based on our best view of the world and our businesses as we see them today. For more detailed information, please see the disclaimers on the earnings materials relating to forward-looking statements that involve risks, uncertainties, and assumptions. For a discussion of some of these risks, uncertainties, and assumptions, please refer to HPE's filings with the SEC, including its most recent Form 10-K and Form 10-Q.

HPE assumes no obligation and does not intend to update any such forward-looking statements. We also note that the financial information discussed on this call reflects estimates based on information available at this time, and could differ materially from the amounts ultimately reported in HPE's quarterly report on Form 10-Q for the fiscal quarter ended January 31, 2021. Also, for financial information that has been expressed on a non-GAAP basis, we have provided reconciliations to the comparable GAAP information on our website.

Please refer to the tables and slide presentation accompanying today's earnings release on our website for details. Throughout this conference call, all revenue growth rates, unless otherwise noted, are presented on a year-over-year basis and are adjusted to exclude the impact of currency. Finally, we will be referencing the slides and our earnings presentation throughout our prepared remarks. As mentioned, the earnings presentation can be found posted to our website and is also embedded within the webcast player for this earnings call.

With that, let me turn it over to you Antonio.

Antonio Neri
Well, thanks Jeff, and good afternoon, everyone. Thank you for joining our call today, and for those of you who attended our Virtual Security Analyst Meeting last month, thank you. We appreciate the opportunity to discuss how our edge-to-cloud strategy positions us to capture an expanded market opportunity and accelerate shareholder value creation.

HPE ended fiscal year 2021 with strong momentum. Customers are responding to our edge-to-cloud value proposition as evidenced by the record demand for our solutions. Demand accelerated in the second half of the year, driving fiscal year 2021 orders growth of 16% year-over-year.

Revenue of $27.8 billion in fiscal year 2021 grew in line with our long-term outlook, up 1% year-over-year. In fiscal year 2021, we executed very well, which enabled us to exceed our commitments across all financial metrics, even with a substantial order backlog.

Our as-a-Service annualized revenue run rate or ARR of $796 million was up 36% year-over-year. We significantly improved our gross and operating margins, which increased our fiscal year 2021 non-GAAP operating profit by 25% year-over-year.

We delivered fiscal year 2021 non-GAAP diluted net earnings per share of $1.96, up 27% year-over-year. And we generated the fiscal year 2021 free cash flow of $1.6 billion, up $1 billion year-over-year, which translates to growth of 177%. This was a very strong performance, and it was particularly impressive against the backdrop of industry-wide supply constraints, which continue to challenge our ability to convert orders to revenue as quickly as we would like. We have a world-class global operations team that continues to work closely with a long-standing diverse network of suppliers. We continue to take proactive inventory measures to better position us to deliver against this robust customer demand.

Our results in Q4 strengthened the momentum we have as we enter fiscal year 2022. Increased demand in the quarter drove orders growth of 28% year-over-year, with particular strength in our as-a-Service orders, which grew an impressive 114% year-over-year, including a large network as-a-Service win. We also saw record levels of orders in key growth areas, including Intelligent Edge, High Performance Computing & Artificial Intelligence businesses.

We delivered $7.4 billion in total Q4 revenue, which was up 7% sequentially and above normal sequential seasonality. We expanded our gross and operating margins, increasing our Q4 non-GAAP diluted net earnings per share by 27% year-over-year and we generated Q4 free cash flow of $94 million, in line with the outlook we provided at the end of Q3. Tarek will take you through our quarterly results in detail, but I would like to spend a little more time putting our full fiscal year in context for you.

Our fiscal year 2021 results proved the relevance of our strategy to customers and the traction of our transformation to become the edge-to-cloud company. As we discussed at our Security Analyst Meeting last month, HPE is at the center of several compelling megatrends, the explosion of data at the edge, the mandate for a cloud experience everywhere, and the need to extract value from data to generate insights.

HPEs differentiated edge-to-cloud strategy uniquely positions us to capitalize on these trends and capture growing profitable markets. Our solutions and services help customers overcome the challenges of multi-generation IT, and enable them to access, control and maximize the value of all their workloads and data everywhere.

We are executing with focus and speed to deliver against our vision and strategy. We are making strategic investments and taking deliberate steps to continue to shift our business. And as I have said previously, this transformation is my number one priority, and I'm proud of the progress we have made in fiscal year 2021.

Our Intelligent Edge business grew fiscal year 2021 revenue 13% year-over-year with orders exceeding for the first time $4 billion. Customer demand was up strong double digits year-over-year as more customers look for ways to create new digital experiences at the edge and capitalize on the data generated there. But the industry-wide component shortages kept us for converting our full order momentum to revenue in Q4, and we entered fiscal year 2022 with record levels of backlog.

Our market leadership at the Edge remained very strong. HPE was positioned as one of the leaders in the Magic Quadrant Gartner provides for wireless access network edge infrastructure, which is notable because HPE is only one of the two companies to be positioned in the Leader Quadrant four years in a row.

We continue to drive strong innovation in this business. In Q4, we introduced the industry-first distributed services switch, which brings software-defined services and security right to where the data is created and processed. Developed in partnership with Pensando, this solution eliminates legacy appliances and whole software needed to build the hybrid cloud demanded by modern applications and IT organizations.

In Q4, we closed the largest network as-a-Service deal in HPE history to help a large US retailer enhance its customer and employee experience throughout the stores. In addition, the Major League soccer franchise, FC Cincinnati standardized on Aruba at the TQL Stadium to deliver next-generation digital cashless, counter-less fund and event experiences. The franchise deployed an end-to-end Aruba Edge Services platform network at its new 26,000 seats stadium to power this game day and special event experiences.

Orders of HPE's High Performance Compute & AI offerings were also up strong double-digits year-over-year. This record level of demand has generated an order book of awarded contracts now at $2.7 billion, excluding the important $2 billion win with the US National Security Agency.

HPE expanded our number one market position in HPC with 37% market share as of calendar Q2 data, which is more than 14 points above the closest competitor. And according to the list of the top 500 supercomputers released just two weeks ago, 33 of the top 100 most powerful supercomputers in the world were built by HPE. This is more than any company.

At the end of Q4, the National Energy Research Scientific Computing Center, NERSC at Berkeley Lab accepted the first phase of the Perlmutter supercomputer. Powered by the HPE Cray EX system, Perlmutter introduces a new generation of supercomputing capabilities to more than 8,000 scientists performing research for the US Department of Energy Office of Science. HPE is uniquely positioned to bring the AI, deep learning and data analytics capabilities of our most advanced supercomputers to mainstream enterprises through the HPE GreenLake platform.

In Q4, we announced that ENI, a global energy company selected HPE GreenLake to upgrade its existing HPE supercomputer. Through HPE GreenLake, ENI can accelerate discovery of new energy sources with more accurate modeling and simulations, as well as become more sustainable by monitoring utilization and energy consumption within an as-a-Service solution. We continue to strengthen our Compute and Storage businesses where we saw strong orders and profitability in fiscal year 2021.

In Compute, orders increased more than 10% in fiscal year '21 and we delivered operating margins of 10.8%, up 260 basis points year-over-year. We are making bold moves to transform our Storage business into a cloud-native data services business, which resulted in a high single-digit order growth and gross margin expansion, up 130 basis points year-over-year. And we continue to see high services attach rate, helping enable HPE Pointnext orders to increase mid-single digits in fiscal year '21. This contributed to the overall performance of HPE Pointnext, which ended fiscal year 2021 with a book-to-bill ratio of 1.15 of revenues, highlighting the potential for future revenue growth in fiscal year 2022 and beyond.

In fiscal year 2021, we generated strong momentum in our transformation to an as-a-Service company. Our company as-a-Service orders increased 61% year-over-year, with HPE GreenLake orders increasing 46% year-over-year. Our as-a-Service annualized revenue run rate, or ARR, of $796 million was up 36% year-over-year. The growth of our ARR is particularly noteworthy because this recurring revenue stream is high quality and high margin.

During our Security Analyst Meeting last month, Tarek shared that more than 60% of our ARR mix is software and services. And we believe that portion will grow to more than three quarters in the next three years.

Our ARR gross margins are well above our corporate average gross margins today. And the addition of high-value software content will drive margins even higher. Our pivot to an as-a-Service company is enabled by HPE Financial Services, which increased fiscal year 2021 financing volume 3% year-over-year, driven by strong growth within HPE GreenLake.

We continue to advance our leadership in our HPE GreenLake offering. In September, we introduced HPE GreenLake for data protection, which are cloud services designed to protect data across edge-to-cloud, overcome ransom ware attacks and deliver rapid data recovery. This new set of solutions marks our entry into the growing data protection as-a-Service market. Our acquisition of Zerto enabled us to add market-leading data protection to our cloud services portfolio to help enterprises take cyber threats and ransom ware attacks head on.

We also launched HPE GreenLake for data analytics, which includes the industry-first, unified modern hybrid analytics and Data Lake platform. This strategically important solution positions HPE in the growing Unifi analytics market and helps customers accelerate modernization initiatives for all data across edge-to-cloud. We continue to see incredible response to our HPE GreenLake offering. We added more than 300 new GreenLake customers during fiscal year 2021, bringing our customer count to more than 1,250.

New GreenLake logos represent an increasing share of orders with approximately one quarter of Q4 GreenLake orders coming from new customers. Today, more than 900 partners sell HPE GreenLake, one of the largest, partner of ecosystems selling as-a-Service offerings in the industry. We added more than $1.5 billion of GreenLake total contract value over the last year, bringing the total to more than $5.7 billion.

Examples of new GreenLake logos includes Trinchero Family Estates, the second largest family-owned winery in the world which adopted HPE GreenLake through our channel partner PKA technologies to add flexibility and scale, its capacity to meet the increasing demand of automation.

The HPE GreenLake solution powers the winery's automated warehouse, where approximately 60 different types of wines are produced, bottled and packaged for shipping while reducing overall IT costs.

We also won a deal with ONGC, India's largest Oil and Natural Gas Company, which is using the HPE GreenLake platform to make one of the largest SAP implementations in the world more manageable and flexible.

Our Q4 rounded out an impressive year for HPE. And I'm proud of all we've had accomplished. We have made incredible progress in transforming to become the edge-to-cloud leader, executing on our strategy to help customers in truly differentiated ways and position ourselves for sustainable profitable growth for our shareholders.

At the same time, we have advanced our ESG initiatives, which in Q4 earned us a position on a highly competitive Dow Jones Sustainability World Index, placing in the 98 percentile. We exceeded our commitments in fiscal year 2021, and our momentum is strong as we enter fiscal year 2022 with a strategy more relevant to customers than ever before and a sharp focus on execution.

With that, I will turn it over to Tarek to share additional details about the quarter. Tarek, over to you.

Tarek Robbiati
Thank you very much, Antonio. I'll start with a summary of our financial results for the fourth quarter of fiscal year 2021. And as usual, I'll be referencing the slides from our earnings presentation to guide you through our performance in the quarter. Antonio discussed the key fiscal year 2021 highlights on slides one and two, so now let me discuss our Q4 performance, starting with slide three.

I am very pleased to report that we continue to see unprecedented demand across all our businesses with robust order growth, up 28% year-over-year. Building on the strength from the last quarter, we delivered Q4 revenues of $7.4 billion, up 7% from the prior quarter above normal sequential seasonality and this despite increased supply chain challenges that we foreshadowed at SAM last month.

It's also worth highlighting that $7.4 billion of revenue represents the highest level since Q1 of fiscal year 2019, well before the pandemic. Our non-GAAP gross margin was 33%, which was up 230 basis points from the prior year. And this was driven by our deliberate actions to shift towards higher-margin software-rich offerings, strong pricing discipline and cost takeout.

As previously indicated, gross margins were pressured from prior quarter levels due to an increasing industry-wide shortages of certain components that have resulted in extended lead times and higher commodity costs underpinning backlogged orders. We continue to take proactive inventory measures and display healthy price discipline to minimize the impact of recent disruptions. We expect this dynamic supply chain situation to last well into calendar year 2022.

We also continue to invest in high gross margin-rich areas of our portfolio. We've made investments in our overall go-to-market to accelerate our growth and our shift to an as-a-Service model. Even with these investments, our non-GAAP operating margin was 9.7%, up 120 basis points from the prior year, which translates to a 16% year-over-year increase in operating profit.

Within other income and expense, we benefited from further strong gains related to increased valuations in our Pathfinder venture portfolio, an outstanding operational performance in HPC that I will address in more detail later.

With strong execution across the business, we ended the quarter with non-GAAP EPS of $0.52, up 27% from the prior year and at the high end of our outlook range for Q4. Excluding $2.2 billion of after-tax proceeds received from Oracle satisfaction of the judgment in the Itanium litigation, Q4 cash flow from operations was $784 million, and free cash flow was $94 million.

For fiscal year 2021, this brings our total cash flow from operations to $3.7 billion, up $1.5 billion from the prior year, and our free cash flow to $1.6 billion, up $1 billion from the prior year driven primarily by an increase in earnings. Our strong execution and cost optimization and resource allocation program has effectively put us one year ahead of schedule with respect to delivering our previous free cash flow targets.

Finally, the strength of our cash flow has positioned us to return substantial capital to our shareholders. We paid $157 million of dividends in the current quarter and are declaring a Q1 dividend today of $0.12 per share payable in January. We also reinstated our share repurchase program in Q4 buying $213 million in shares, reflecting our confidence in future cash flow generation and our view that the stock is undervalued.

Slide four highlights key metrics of our accelerating as-a-Service business. We have made significant progress over the last year by adding over 300 new enterprise GreenLake customers to over 1,250 today and increasing our TCV by over $1.5 billion to our current lifetime TCV of over $5.7 billion.

For Q4 specifically, our ARR was $796 million, which was up 36% year-over-year as reported and total as-a-Service orders were up 114% year-over-year, which represents an acceleration from Q3, demonstrating the strong momentum we are experiencing in this business.

It's also important to remember the incremental disclosure we provided at SAM 2021, highlighting the significant proportion of software and services in our offerings that together make up more than 60% of the ARR mix today. We expect this mix percentage to expand to more than 75% by fiscal year 2024 as we add more software capabilities driving further gross margin improvement.

Overall, based on strong momentum this year, I'm very happy with how this business is progressing, which gives us confidence to increase our ARR growth targets by 5 points to a 35% to 45% CAGR from fiscal year 2021 to fiscal year 2024.

Let's now turn to our segment highlights on slide five. Our growth businesses, which now represent nearly 25% of our total company revenue, generated record levels of orders, up strong double-digits.

In the Intelligent Edge, revenue grew 2% year-over-year in Q4 and for fiscal year 2021 was up 13%. Demand continued unabated in Q4 with order growth up over 50% year-over-year, but the component shortages we foreshadowed at SAM were more pronounced in our Aruba business.

Additionally, our Edge-as-a-Service offerings were up trip triple-digits year-over-year, significantly contributing to our ARR. We delivered a multimillion-dollar NaaS, Network-as-a-Service deal in Q4 for a large US customer, which represented more than 800 basis points headwind in the short-term to Aruba revenue in Q4, but will help our long-term financial profile in the business.

Aruba Services also continued to grow strongly, up high single digits. Looking forward, we expect it will take some time for supply chain challenges to ease, but we finished fiscal year 2021 with over $4 billion in orders which will give us strong momentum through fiscal year 2022.

In HPC & AI, demand strengthened even further with another record level of orders. Revenue grew 35% sequentially and was flat year-over-year with a difficult compare. We did have customer acceptances of some large contracts get pushed out into fiscal year 2022. And we now have $2.7 billion of awarded contracts in addition to the $2 billion contract awarded by the NSA, giving us confidence for next year and beyond. We expect robust revenue growth in fiscal year 2022 to get us back within the range of our original long term 8% to 12% CAGR outlook.

In Compute, order growth was up strong double-digits. Revenue grew 4% quarter-over-quarter, reflecting above normal sequential seasonality and was up double-digits year-over-year when normalizing for the Q4 FY 2020 backlog. Operating margins of 9.4% were up 280 basis points from prior year due to disciplined pricing and the rightsizing of the cost structure in this segment.

Within Storage, order growth accelerated and was up double-digits year-over-year. Revenue grew 2% year-over-year and 7% quarter-over-quarter ahead of normal sequential seasonality, driven by strong growth in software-defined offerings.

All-flash arrays grew 7% year-over-year, led by Primera, up strong double-digits. Nimble grew 4% year-over-year, with ongoing strong dHCI momentum, growing double-digits year-over-year. Storage operating profit margin was 13.8%, reflecting OPEX investments to continue driving product mix shift towards more software-rich platforms, including our cloud data services.

With respect to Pointnext operational services, including nimble services, orders accelerated and were up high single-digits in Q4 and up mid-single-digits for fiscal year 2021. Most importantly, revenue also grew as reported overall for fiscal year 2021, the first time in several years. This is, again, very important, as we enter fiscal year 2022 with strong momentum in our most profitable business.

Within HPE Financial Services, volume increased 18% year-over-year, driven by strong double-digit growth in GreenLake. Revenue was up 3% sequentially and flat year-over-year. Our profitability is also benefiting from higher residual values realization and lower borrowing costs, as we continue to securitize our US portfolio via the ABS market. Our operating margin was 14.1%, up 630 basis points from the prior year, and our return on equity at 23.8% is well above the 18% plus target set at SAM 2021.

Slide six highlights our revenue and EPS performance, where you can clearly see the strong rebound from last year and sustained momentum throughout fiscal year 2021. As mentioned previously, Q4 revenue of $7.4 billion is the highest level we've delivered since Q1 2019. With a strong demand environment, our strategic business mix shift and execution of our cost optimization and resource allocation program, we increased our Q4 non-GAAP EPS to $0.52, up 27% year-over-year.

Turning to slide seven, we delivered non-GAAP gross margins in Q4 of 33%. While rates were impacted as expected sequentially from the supply chain challenges previously discussed, we expanded gross margins up 230 basis points from the prior year. This was driven by strong pricing discipline and a positive mix shift towards high-margin software-rich businesses. In total, in fiscal year 2021, we delivered nearly $900 million of incremental gross profit.

Moving forward, we will face lingering supply chain challenges in the near term, but longer term, structural gross margins will improve from continuous mix shift towards the intelligent edge or IP storage GreenLake and all of our as-a-Service offerings.

Moving to slide eight, you can see we have utilized some of the incremental gross profit to make targeted growth investments while simultaneously expanding non-GAAP operating profit margins. We have increased our investment levels in R&D to fuel our long-term innovation engine and still selling costs to accelerate our growth and higher shift to our as-a-Service pivot. Even with these investments to drive long-term growth, we delivered operating margins in Q4 of 9.7%, up 120 basis points from the prior year.

On slide nine, we want to highlight our unique setup in China through our investment in H3C that has and continues to generate tremendous value for our shareholders. Our investment and commercial agreement gives us a route-to-market in the second largest, fastest-growing IT market in the world. As you know, we do not consolidate revenue and operating profit from H3C, but recognize our 49% share of H3C's earnings through the equity interest statement line on our P&L as part of other income and expense.

H3C has delivered outstanding operational performance throughout the year and generated $257 million of equity interest in fiscal year '21, which was up 21% from the prior year. This makes our business in China a very large contributor to our P&L, one that no other multinational has been able to replicate.

Turning to slide 10, we finished fiscal year '21 generating $3.7 billion of cash flow from operations and $1.6 billion of free cash flow, and this excluding, obviously, the $2.2 billion of after-tax, cash received from Oracle satisfaction of the Itanium litigation.

Free cash flow was up $1 billion year-over-year and is $600 million more than the midpoint of our outlook at the start of fiscal year '20, primarily driven by increased earnings. Our cash flow profile is becoming more predictable and aligned to profitability as our restructuring costs diminish, and we grow our as-a-Service business beginning to recognize more deferred revenues from software and services.

Moving on to slide 11, we have made further progress enhancing our balance sheet strength with a strong free cash flow and payment from Oracle. Following the receipt of the cash from the Itanium litigation, we redeemed early, our $1 billion 4.65% coupon outstanding 2024 notes and this in a positive NPV transaction that is net debt-neutral.

The make whole premium paid was a GAAP-only expense in Q4, and we will realize meaningful interest expense savings over the next three years. We are now in an operating company net cash position of $1.8 billion. Bottom line, our improved free cash flow outlook and cash position ensure we have ample liquidity available to balance long-term growth investments with consistent return of capital to our shareholders.

Now, turning to our outlook on slide 12. At our Securities Analyst Meeting last month, we provided our outlook for fiscal year '22, and I would like to encourage you to review my presentation for a more detailed discussion of that outlook. Having said that, let me reiterate and drill down into a few key components. We expect fiscal year '22 revenue growth in constant currency of 3% to 4%. As discussed, the supply chain environment remains very dynamic, and we expect component shortages with increased commodity costs, expedite and shipping fees to last for the next few quarters impacting near-term revenue and gross margins.

In a nutshell, we expect to have more of a back-end loaded year in fiscal year '22 with the supply chain risk that we discussed reflected in our fiscal year '22 guidance. We expect non-GAAP EPS to be $1.96 to $2.10 and free cash flow to be $1.8 billion to $2 billion. We expect free cash flow to be more in line with historical seasonality where the second half is a stronger generator of cash than the first half.

Now specific to Q1 revenue, given the very strong backlog balanced by supply chain constraints, we expect revenue to be in line with normal sequential seasonality of down mid-single digits from Q4 of fiscal year 2021 and are comfortable with current consensus levels. We also expect gross margins to be pressured in the short-term given supply chain.

As a result, for Q1 2022, we expect GAAP diluted net EPS of $0.19 to $0.27 and non-GAAP diluted net EPS of $0.42 to $0.50. So overall, I'm very proud of our progress throughout our strong fiscal year 2021.

As Antonio said, we exceeded all our key financial targets in fiscal year 2021, often by a significant margin. The demand environment has been incredibly strong across our business with acceleration in the second half of fiscal year 2021; demonstrating that our edge-to-cloud strategy is working well and that we are entering fiscal year 2022 with strong momentum. We are now well-positioned to capitalize on the opportunity in front of us and deliver against our fiscal year 2022 outlook.

Now with that, let's open it up for questions.

QUESTION AND ANSWER

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

Our first question is from Shannon Cross with Cross Research. Please go ahead.

Shannon Cross
Thank you very much. I wanted to dig a little bit more into the as-a-Service performance. Obviously, orders are extremely strong during the quarter. How much of that was from the one-time…not one-time, but from the large contract signed, how should we think about the longer-term growth potential, how it flows through the model as we look to the next year or two? And I don't know maybe if you can give a little bit more on the composition of the as-a-Service, is there any one product, or service that's really driving that business at this point in time? Thank you.

Antonio Neri
Well, thank you, Shannon. I will start, and obviously, I would like Tarek to comment on the model in itself. Listen, we are super proud of the momentum we have in the market with HPE GreenLake. We believe it's truly differentiated in the market. And as we show you some, two-thirds of that is already in the software and services, and we believe in three years, will be more than 75% of it, which obviously comes with high margin and more durable revenue in many ways. What customers like about the model is the ability to procure everything from Edge to cloud from one integrated platform. And it's not just what I call Infrastructure as-a-Service or hardware as-a-Service on premises in a color or at the Edge, it's the fact that they can consume anything from network as-a-Service, subscription to Aruba products to what I call private cloud to data services, which is part of the transformation we are driving in our storage portfolio.

And as we said, $5.7 billion already in total contract value and in Q4, the growth was accelerated by a number of new logos, which again, we added 300 in fiscal year 2021, which drove the order growth to 114%, okay? So when you think about this, we have been delivering 40, 50, 60 and in Q4 it was 114%. And Aruba is one key component of that. But what we see now, Shannon, is also the Storage part of this is growing very rapidly. And that's why I'm excited about next year because we're also adding new capabilities to that platform, particularly in the early part of 2022.

So overall, I will say this has been a home run. We believe we have years of advantage. We are disclosing all our numbers, as you see, versus some of our competitors are not sharing anything as far as I can see. And what I'm really pleased with is that we have now 900 partners selling with us, co-selling, and you will see their offers in our platform here soon because that's the way we drive, fully push from both sides, direct and indirect. So Tarek, do you want to talk about the modeling?

Tarek Robbiati
So yes, Shannon, I mean, Antonio said already quite a few things. So first and foremost this first and largest network as-a-Service contract contributed to orders in Q4 substantially, but did not contribute to the ARR because the revenue will be recognized over time. But notwithstanding that, the ARR, if you really look at our ARR progression quarter after quarter in fiscal year 2021, it's outstanding. We did $649 million in Q1 of ARR, grew that to $678 million in Q2, $705 million in Q3 and now approaching $800 million, $796 million to be precise in Q4. So the momentum in this business is extremely strong, and there isn't a particular business unit that is contributing. We're executing an integrated strategy that is about edge, cloud and data. Right now, the main contributors are the various parts of the organization that fit these three pillars. Aruba is one of them. The Storage business unit is another one. We will also continue to expand our as-a-service offerings in HPC and AI because we see a tremendous opportunity there. And the future will tell us how big that opportunity will be for us. But we firmly believe in it.

Antonio Neri
Thank you, Shannon. Operator, next question, please.

Operator
The next question is from Wamsi Mohan with Bank of America Merrill Lynch. Please go ahead.

Wamsi Mohan
Yes. Thank you. Antonio, I'm trying to reconcile your comments around strong backlog, which you guys have been very consistent about. Relative to what happened in the quarter and the guide here for…in the near term, it sounds like component shortages were a major reason for that, but you're maintaining your full year guide. So just trying to understand like what gives you the confidence that these will resolve itself? And what gives you the confidence that this is…this back-end loaded year is going to pan out as you're seeing it now?

Antonio Neri
Sure. Well, I mean, if you look at our results, right, once…right, so we grew orders, total company orders 16% year-over-year, but our revenue in actual dollars was up 3%. Obviously, there is a big divergence there between 16% and 3%, right? And that's driven by the supply availability. Despite the fact that we continue, I think, do a great job of navigating through the challenge. And the one area I'm really particularly pleased, I want to say is the fact that linearity in the business in the way we approach customers that book orders is now more frontend than backend in the quarter itself. I always talk about quarters having 13 weeks and what is amazing to me in the last

couple of quarters, the bookings have been more on the frontend than the backend, which allows us, actually…It's a little bit counterintuitive if you think about it. The more orders are…brought early on, the more I can convert despite the supply chain challenges because I have more time and more velocity, if you will.

So listen, as Tarek said, and I said in my remarks, short-term, we're going continue to navigate. This is an industry-wide challenge. But we're very confident with the actions we are taking ourselves. And the fact of the matter is that that backlog is very durable. People asked me early on, have you seen cancellation? I can tell you right now, zero, no cancellations whatsoever. And the orders coming in every day, every week is incredibly strong. So, we have to navigate the next quarter or two. And then based on our understanding and the work we have done with our suppliers, the second half will be better. And then also remember, we have I think, world class capabilities both on the supply chain operations and our engineering capabilities to be able to adjust components based on the bond.

And then also, remember, a big chunk of the backlog is related to acceptances in the customer base with HPC, which is already built and shipped. But as you know, we cannot recognize revenue until fully accepted. This quarter, we recognized a customer, which had a large order in HPC. But remember, in 2022, we have the large extra scale deals and one of them is going to be very important for us as we think about the back half of the year. So, that's why Tarek and I are very confident in that 3% to 4% guidance.

And let's remind ourselves in the 3% to 4% guidance, we have 1 to 1.5 points of headwind because of the transition towards as a service, right, which is great, is durable, is long term growth. And so, you normalize for that, it's more like 5% to 5.5%, if you will. And then on top of that, you have to add the currency, which obviously is a headwind in the sense that the 3% to 4% is constant currency. So, if you take all of that, we are more than like in the 7% to 8% growth. And remember that Q4 was a $7.4 billion, the largest quarter despite the supply chain going all the way back to 2019.

Jeff Kvaal
Thank you, Wamsi. Operator.

Operator
The next question is from Simon Leopold with Raymond James. Please go ahead.

Simon Leopold
Thanks for taking the question. On this 28% order growth, I'm wondering if you could unpack maybe some of the factors that contributed to it. And what I'm thinking about is, is there an aspect here of customers trying to get in ahead of price increases or an aspect of customers placing orders earlier because of extended lead times. If you could just help us understand what you see contributing to that massive number? Thank you.

Antonio Neri
Well, glad you call it massive, because we agree with you. It's a strong momentum, and clearly was stronger in Q3 and Q4 than the first half of the year. I think it's a combination, Simon. I think that obviously, there is a market demand out there driven by the recovery in the economy. I think customers also worry about the impact of the supply that we'll have in the short, mid-term. But on the same time, we should not underestimate the power of our portfolio, because I got this question earlier on, you take this double-bookings, perhaps in the commodity space, but not on the value space. We believe Aruba is unique and differentiated. This is not something you can

swap by somebody else, and that business is a true mobile first cloud-native approach, which drives a unique experience at the edge. And that momentum has happened for a number of quarters now despite the short term challenge of supply.

HPC, we are the clear number one leader with 35% market share and 14 points advantage against the second competitor. And then the supercomputer, I don't think there's anybody that can match us, 35% of the top 100 supercomputers are all Hewlett Packard Enterprise, and we're going to deliver the extra scale in 2022.

And GreenLake, again, the question about GreenLake is a true hybrid differentiated offerings from edge-to-cloud. And I think that has been in the making now for a number of years, and the pipeline is just amazing to me. And now, we are getting better and better in closing deals faster and deploying the solution, which, remember, it's not just deploying it, it's also driving usage. And so, it's a combination of growth in the current installed base and new logos, which I commented 300 new logos. So we believe there may be some in the commodity space, but the rest is because of our edge-to-cloud offering, which is resonating in the market, and we believe that's going to accelerate in 2022.

Jeff Kvaal
Thank you, Simon. Operator.

Operator
The next question is from Kyle McNealy with Jefferies. Please go ahead.

Kyle McNealy
Hi. Thanks for the question. I was wondering if you could drill down a bit more in the areas that are driving your Compute segment results, they were a bit higher than we expected and certainly the consensus, I get that there's some FX in there. You quantified that. But are there segments of the market that have been stronger for you that you can contextualize? And can you give us a sense for unit growth for Compute? And maybe a split of how much ASP growth comes from memory versus product mix versus general price increases? Thanks.

Antonio Neri
Yes. Go ahead, Tarek, and then I will comment on the end, on the back end.

Tarek Robbiati
Sure, Kyle. So in terms of customer segments, the demand remains very strong across the board and large enterprise customers, SaaS companies, Telcos, and we see very robust demand from all these customers. With respect to unit growth, units have been roughly flat quarter-on-quarter, but the right comparison is a normalized year-over-year comparison. If you normalize for Q4 2020 units that were sold, but for orders that were generated in Q1 and Q2, you remember the dynamics of fiscal year 2020 units have grown 13% Q4 2021 over normalized Q4 2020, which is an excellent result for us. We're very pleased with it. And this comes together with very strong discipline from our management team there in the Compute space. We've executed a number of price increases ahead of price hikes of commodities and logistics costs coming up by way of expedite fees and container costs that have been rising quite dramatically, as you know.

The AUP have risen overall at about 3%. When you think about this on a normalized basis, and we feel pretty good about our performance in Compute, both on the price and the quantity. We feel that there is still strong demand moving forward, particularly in fiscal year 2022 with the order book that we have been able to generate and the backlog that we have in that segment. But that comment that I just made is true and very true for Aruba where we feel a very strong order demand in Aruba and also in storage. So we feel pretty good about fiscal year 2022, as Antonio commented a moment ago.

Antonio Neri
Yes. Just to add a few comments. In simple terms, this is the way to think about it. So first of all, our Compute orders were up more than 10% in 2021. Our units normalized for…remember, the 2020 backlog, if you remember, when the COVID started, we had a $750 million backlog which we cleared $500 million in Q3 2020 and $250 million in Q4. When you normalize for that, units are up. Obviously, AUPs are up for two reasons; number one, cost and number two, structural changes. As we introduce the next-generation of our Compute platform, call it, Gen 10.5 and 11 you're going to see more options and more density in those platform, which drives structural changes, which are…we believe those structural changes are sustainable, irrespective of the changes of the commodity cost.

And then if you listen to what we said in 2020 and 2021 are pivot to different segments of the market. We said we want to focus on growing segments of the market, while enterprise is still super important. SaaS, Telco and Edge are three growing markets where we have been benefit from. Telco obviously with a 5G deployment our Intelligent Edge Solutions at the Edge, particularly in retail, manufacturing and hospitality, and then obviously, the focus on the SaaS, which is not the big cloud providers, but Software-as-a-Service companies, which are driving quite significant growth.

And then we have our own value of built into the platform with silicon root of trust and manageability. And all of this, by the way, is all now being delivered to HPE GreenLake, as well. So GreenLake is a force multiplier for the growth in Compute, because the more we sell as-a-Service, the more recurring revenue in Compute we're going to have over time. So I hope that answers the question.

Jeff Kvaal
Kyle. Thank you very much. Operator.

Operator
The next question is from Katy Huberty with Morgan Stanley. Please go ahead.

Katy Huberty
Yes. Thank you. Antonio, how should we reconcile your commentary on incredibly strong order growth in just about every business and orders up 16% in fiscal 2021 with the 3% revenue growth that you reported last year, and the similar 3% to 4% revenue growth for fiscal 2022? Is there a point that these really strong orders convert to a meaningful acceleration in revenue growth? And if so, which quarter of fiscal 2022, do you think we could see that backlog flush?

Antonio Neri
Yes, I'll let Tarek start, and then I will add a few comments.

Tarek Robbiati
Yes. So Katy, the most important comment I would make to you with respect to orders is that the acceleration of orders manifested itself very strongly in the second half of fiscal year 2021. And it's continuing from here on, the demand remains very strong. We're getting orders every day, and the linearity is better even this quarter than it was in the prior quarter last year. The trough for our business was hit in the second quarter of 2020 ever since revenue has been edging up.

And we're now at a point in Q4 2021, where we hit the revenue that is at the high watermark that is on the par with the first quarter of fiscal year 2019 roughly. We do see the acceleration of the revenue growth year-over-year manifesting itself on a full year basis. But timing-wise, we did say in my script and hopefully, it was understood that, the fiscal year 2022 is going to be back-end loaded. Why is that? It's because we still have to navigate supply chain constraints and those supply chain constraints are probably not going to abate before the end of fiscal year 2022 and most likely calendar year 2022.

Specifically for Q1, we're comfortable with current consensus levels on revenue and which also imply, as I said in my script, a seasonal decline of mid-single-digits. But when you really look at the overall trend, year-over-year from now on, we do expect an acceleration of revenue that will be dampened a little bit by supply chain constraint that we're navigating day-after-day, month-after-month and quarter-after-quarter.

Antonio Neri
Yes. Katy, I think in addition to what Tarek said. First of all, I don't see the demand abating anytime soon. I actually see that continuing to accelerate. And what is amazing to me is that in the areas where we place a particular focus, we see amazing growth. And what excites me is that…I…knowing what I know about our new offerings and acceleration of innovation particularly in the first calendar quarter, we believe that's going to be a turbocharge. Now, as you can imagine, I spend a lot of time with our global supply team, driving the day-to-day operations with Tarek here. And obviously, we have to navigate the first two quarters of the year. But I feel pretty good about accelerating that in the back half, a combination of supply availability and customer acceptances. But again, when you normalize the growth for everything I said earlier to Wamsi, which is including the as-a-Service pivot. You should think about not three to four, but more like six to seven because that's the way we should think about it. And then in that, remember, the growth of the ARR is going to continue to accelerate 35% to 45%. And hopefully, in 2022, we're going to get the credit for the transformation we drive in this business.

Jeff Kvaal
Thank you very much Katy. And operator.

Operator
The next question is from Amit Daryanani with Evercore. Please go ahead.

Amit Daryanani
Perfect. Thank you all. Maybe I want to talk a little bit on the Intelligent Edge side. And Tarek, maybe you could just talk about what's driving out just the revenue deceleration, but also the margin declines over there. The margin drop seemed fairly material. So I would love to understand kind of what's happening there. How do you see that business ramp up through fiscal 2022?

And then, Antonio, I want to touch this with you, which is you've talked a fair bit about the conviction in the orders that you have and how good they are, and I think you've said about a lack of cancellation being a pretty big driver for it…driver for your confidence. I would imagine cancellations will only happen when supply chain issues alleviate versus right now. Is that fair? If so, are there other things you're looking at in your business that gives you confidence that these orders will convert?

Antonio Neri

So, Tarek, you want to talk about the Aruba piece of it which obviously the Network-as-a-Service was a big component of that?

Tarek Robbiati
Yes. So let me take that, Antonio. Thank you. So Amit, as we shared in our scripts, we signed a very substantial Network-as-a-Service contract for the first time with a large US retailer. And this had a headwind on revenue growth in Aruba of about 800 basis points and a headwind on operating margins of about 500 basis points. So if you were to normalize for it, you still realize…you would realize that the double-digit growth in Aruba and high-teens margins are still there.

And we're very comfortable they're there for us Aruba is at 40% business meaning we do see the top-line growth to be in the high-teens and the margins to be in the high-teens as well, approaching a sum of 40% overall. Nothing has changed. We feel very comfortable, particularly knowing that the order book remains very strong. If anything, there was one part of our company that suffered a little bit more of supply chain constraints. In Q4, it is Aruba. But it's just simply deferring revenue that could have been realized in Q4 into Q1 and Q2 of fiscal year 2022. The order story remains incredibly strong, and the demand there is super solid. So we're very confident about the prospects of Aruba for fiscal year 2022.

Antonio Neri
Yes. I mean, I think that covered pretty much everything. Remember what we said in our commentary right. This is a first where Aruba crossed the $4 billion market in orders, you know I remember when I acquired Aruba in 0215 and then we merged with rest HPE business you know it was in the high-twos, now we are 4 billion.

And we again to Tarek's point we believe this business is going to continue to grow double digit. We obviously have to think about this business long term growth particular as we pivot more as-a because the Network-as-a-Service is a nascent [ph] market, but the subscription side is actually growing and more established market. So, remember there is a two different value proportion here, I subscribe to a WIFI connectivity or a LAN port that today the triple digit growth that Tarek talked early on the as-a-Service side. And then there is a nascent Network-as-a-service, which is the hardware component of that, it totally deferred over the length of the contract. And when you have an excess of $100 plus million deal, obviously that has a huge impact. But, is good for long-term durability and that's what we are very bullish about this business. Unless and as I said, earlier to Katy, we believe over time this is going to elevate the supply when I convert more of that, but we exit with that backlog I've never seen in my life and obviously customers' needs connectivity to operate in this digital economy.

Amit Daryanani
And so, then the second part of his question was, do we believe that orders gets cancelled when supply chain?

Antonio Neri
No, yes, well, I mean…listen my view it's not, because we…a lot of those orders are also related to our Green Lake as well, not just transactional business. And obviously we privatize orders in a way that drives the profitability of the business and mission critical requirements for our customers. And therefore, we don't believe that's going to be the case. Our job is to convert as many as we can as fast as we can.

Jeff Kvaal

Thank you very much, Amit. And operator why don't we take two more questions, please.

Operator
And the next question will be from the Sidney Ho with Deutsche Bank. Please go ahead.

Jeff
Hi, this is Jeff, on for Sidney. Thanks for taking the question. You continue to grow your inventory and your balance sheet. Can you talk about how your inventory strategy has changed with the supply constraints and what type of impact you are expecting from higher inventory on free cash flow in fiscal year 2022?

Tarek Robbiati
Yes, sure. So, thanks for the question Jeff. We have been buffering inventory for the past five quarters to navigate supply chain constraints, it obviously this leads to a situation where our inventory levels are higher than in some cases we would like, but it's necessary and it's okay. It doesn't really impact our free cash flow guidance for fiscal 22, which I am very happy to reiterate we said, we would be attaining $1.8 billion to $2 billion of free cash flow in fiscal year '22 and the increase in inventory is factored into the guidance. The guidance is more attained on free cash flow by way of earnings growth, number one. Number two, also by reduction of restructuring cost as our restructuring programs are winding down and then yes there is a bit of an offset headwind from inventory increases. But, it's absolutely fine when you are having your order book in the way we have it, you got to get the head [ph] of curve by way of buffering inventory and that's what we have been doing for the past five quarters, and we will continue to do so in fiscal year '22.

Antonio Neri
Yes, I will say first of all, since the question was not asked, but I may be answer proactively. Tarek talked about the restructuring. We are winding that program and we are well on track to deliver that commitment that we made to our shareholders remember what's the net $800 million at the time. So we are very pleased with that, which makes us a more lean and agile company, and part of that is also the ability to execute faster one of the big changes we have made also was the way we compensate our sales force on orders and this is what you see. And now…we are now confident based on our systems implementation. If you recall, we started three years ago. And we are also getting close to that completion, allowed us to make some changes here in the way we drive the business going forward. And I think this is all about operational excellence and execution.

On the inventory side, I think the team has done a remarkable job driving working capital and…but also at the same time, making the right long-term bets on this inventory, which give us not just the ability to convert but pricing power. And as I said in the Security Analyst Meeting, we tend to be the market leader in changing prices. And we will continue to do so, because it's the right thing to do at the right time. And so, we will continue to manage that inventory as needed for our customers and for delivering of numbers.

Jeff Kvaal
Thank you very much. And operator, let's make this our last question.

Operator
And our final question will be from Samik Chatterjee with JP Morgan. Please go ahead.

Samik Chatterjee

Hi, thanks for squeezing me in here. I guess, I wanted to get your thoughts on H3C. You had a strong year with 20% plus growth in equity income. How should we think about kind of fiscal 2022 there, and what's your visibility into H3C navigating the supply chain constraints as well? And through the conference call today, you've mentioned multiple times about a back-end loaded year. So just wanted to see if that's consistent with how we should think about, H3C equity income as well? Thank you.

Antonio Neri
Yes. Well, Tarek and I felt it was important to share with you how H3C contributes to our financial performance. You saw that slide that shows the equity interest of 49%, what value drives for our shareholders, which is pretty significant. And H3C is an independent entity, which operates in China, obviously. And they manage the business day-to-day. And they have done a remarkable job. I mean they continue to grow their business in China. They are positioned extremely well, in the…what they call the ICT business, they support Telco, they support enterprise customers and SMB. They have a unique value proposition and set of products, which are very well received. And we expect that business to continue to grow double-digits. And the report is incredibly accretive to what we do. But also, at the same time, as Tarek said, is a unique setup, which no other multinational really has been able to achieve in a country, obviously, which is going to a lot of changes here. And it's the second largest market on the planet, okay. So if you believe that market will continue to grow, and they are very well positioned, this will continue to accrete to our shareholders. Now, as we said in previous quarters, are put expire at the May timeframe.

Tarek Robbiati
That's right.

Antonio Neri
And as always, we will do what is the right thing for our shareholders, what is the best return for our shareholders. And we will make that decision at the right time.

Tarek Robbiati
And Antonio said very well. I would simply add that the interesting data point on the slide, and hopefully, you all take away is that, we're not in a rush. The value of our stake continues to accrete. And we feel very, very good about our position in H3C.

CONCLUSION

Antonio Neri
Okay. Well, thank you, everyone. Thank you, Jeff. We appreciate you making the time to talk to us today. I hope you walk away with a clear view of how we are performing. I'm particularly pleased with the momentum we have as we enter 2022. Our strategy could not be more on point. I think the demand is strong, not only because of the market, but because of our solutions. And I'm very excited about the ability to create and accelerate our shareholder value in 2022. And then we have some amazing things coming down the pipeline in terms of innovation that's going to differentiate us even further.

And so, I'm looking forward to 2022, while we navigate this short term challenge of supply, but we are very confident on the current guidance and the consensus out there. And we hope to exceed as we execute in the next quarter. If I don't speak to you in the next month or so. Thank you very much. Be well, Happy Holidays to everyone and to a prosperous 2022. Thank you very much.

Operator

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