Transcript: HP Inc. Securities Analyst Meeting  
October 13, 2016

Company Participants
• Diana Sroka  
• Dion J. Weisler  
• Ronald Coughlin  
• Enrique Lores  
• Stephen Nigro  
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Other Participants
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MANAGEMENT DISCUSSION SECTION

Operator
Ladies and gentlemen, please welcome Head of Investor Relations, Diana Sroka.

Diana Sroka
Alright, good afternoon. I think that was all the HP people cheering, but thank you everyone. Good afternoon. I’m Diana Sroka, the Head of Investor Relations for HP, and I welcome you to our 2016 Securities Analyst Meeting.

We’re so happy to be in New York, and I don’t think we’ve any spaces like this in Palo Alto and they’re fabulous. So excited to be here on the East Coast and I want to thank you all for coming. And I know many of you traveled, many of you are local, some of you are on the webcast, wherever you are listening in, we
really appreciate you taking a few hours out of your day to hear what we have to say. And hopefully you've picked up your backpack or laptop bag, which is a little token of our appreciation today.

So, before I turn over to the agenda, I must turn your attention to the screen please. As always, elements of the following presentations are forward-looking and based on our best view of the world and our businesses as we see them today. For more detailed information, please see this slide about the use of forward-looking statements and the presentations that involve risks, uncertainties and assumptions. And for a discussion of some of these risks, uncertainties and assumptions, please refer to HP’s SEC reports, including its most recent Form 10-K and Form 10-Q.

HP assumes no obligation and does not intend to update any such forward-looking statements and we also note that financial information discussed in this meeting reflects estimates based on information available at this time and could differ materially from the amounts ultimately reported at HP’s Annual Reports on Form 10-K for the fiscal years ending October 31, 2016, and October 31, 2017.

With that, for financial information expressed on a non-GAAP basis, we have included reconciliations for the comparable GAAP information. So please refer to the slide presentations accompanying today’s meeting.

Now, let’s shift to the agenda. So hopefully, you've all had an opportunity to go a couple doors down, where we put together an amazing innovation annex, where you can find an update on all of the wonderful products and innovations that we’ve been putting together in both the Personal Systems, Printing and 3D Printing, and we even have a voxel lab, and if you don’t know what a voxel is, I promise you will by the end of the day today.

And so, if you didn’t get a chance, it is open from 5 to 6 o’ clock. My colleagues from Investor Relations who are here, Chris Lee and Kitt Tanner, as well as all the speakers today will be there. So I encourage you to please take that extra hour and come over and enjoy some time with us.

So over the next few hours, you'll hear from some several members of our leadership team. We’ll start with Dion, who will go over what we’ve done in the first year as HP Inc. We’re nearly celebrating our first anniversary and we’re excited to talk about what we feel we’ve accomplished. He’ll also go over our strategy and what you can expect from us for the next year.

Following Dion, each of our segment presidents will go through a more in-depth view of first Personal Systems, then Printing and 3D Printing, and then we’ll take a break. So you can catch up on anything you need to do on email and we’ll bring Cathie back up, and Cathie will of course do a financial overview and provide our fiscal 2017 financial outlook. We'll all come back up for a Q&A session before we head over to the annex.

So, one last note on materials because I’ve already been asked. Materials will be made available to download on the Investor Relations site, and they’ll be posted just ahead of each speaker presenting. The only exception is Cathie, because we don’t want you to get too anxious and read ahead. Cathie’s will be posted as soon as she completes her talk, but everything will be made available to you today.

Okay I think that’s all I have. So without any further delay, I’m so pleased to turn it over to our President and CEO, Mr. Dion Weisler. Dion?

Dion J. Weisler

Well, good afternoon. Great to be here in New York. So wonderful to see so many familiar faces that were here last year. I'm glad we got you all backpacks, as I look around the room; quite a few more HPs in the room. Still though, Shannon, there’s a great selection up here. Toni, we can do better than that. He’s put it away, look, he just threw it away. Great to be here. And in such a pretty cool venue, I think
Diana was spot on there. This is an amazing venue and representative of the new HP. We’re reinventing everything, even our Security Analyst Meetings.

So with all those familiar faces that would remember back one year ago, you’ll reflect as I have on really quite an amazing year, a wonderful year from our perspective. We rang the bell this morning at the New York Stock Exchange, a very special moment for me having watched the markets from way across the pond in Australia, I was a little kid to actually be up there, standing there, pushing the bell for 10 seconds, you only wish it could have lasted a little longer.

I’m looking forward to sharing with you how we’re doing on our journey, our progress, and our path forward. As we set out as a new company we knew the separation would enable us to focus and to accelerate, to respond to competitive changes quicker and to innovate faster. In a rapidly changing industry, you’ll never wish you did something slower except of course, ringing that bell. I expected to achieve the results that we’ve achieved and I’m proud that we delivered what we said we would do.

Today, we will discuss how and what we’ve achieved this past year, where we see the industry hitting, how our strategy remains consistent and what you should expect from us moving forward. You see, we’re focused, incredibly focused. Every day, all we do is wake up and think about Printing and Personal Systems and the results are showing.

In our first 347 days, (who’s counting), we’re delivering on our financial commitments and making solid progress across all parts of our business from the product portfolio to corporate and social responsibility, and of course our diversity initiatives. We’re delivering on exactly what we promised to shareholders, reliable returns, predictable cash flow and long-term growth.

In Personal Systems, we’re having a lot of fun. Ron and the team are outperforming the market and taking share from our competitors where we choose to play, all the while growing share profitably. We’re not playing anybody else’s game, we’re playing our game and it’s really important to us. We’re delivering incredible innovations like the Elite portfolio, the X2, the award-winning X3, the three-in-one device, and of course let’s not forget the spectacular Spectre 13, the world’s thinnest laptop.

In Printing, we’re completely reinventing the entire portfolio. New PageWide, LaserJet and inkjet printers are providing the industry’s most secure and innovative management services and solutions, and we’re aggressively pursuing growth in the A3 and graphics markets. We introduced our Jet Fusion 3D printers to industry acclaim, laying the foundation and this is really exciting to disrupt a $12 trillion manufacturing industry. And we’re committed to sustainability and diversity as guiding principles for the way we operate.

You’ll hear more from Ron, Enrique and Steve on the business segments and Cathie on the financials. But of course, you’re going to have to listen to me, Ron, Enrique and Steve for two and a half hours before you get to what you really want, one slide from Cathie.

Before I get to that, I do want to provide context on what we’ve achieved this fiscal year, because I think it’s important. I knew we could execute, but we needed to prove this to our partners, to our customers, to our shareholders, frankly to all of you in the room, in order to earn your trust as a new company. Said in other way, we needed to deposit dollars in the trust bank every single quarter.

There were three commitments that we needed to deliver on. First, we committed to operational excellence. We executed three quarters in a row of non-GAAP net earnings per share within or above our outlook range. We said revenue declines would moderate in the second half of this year and that’s exactly what’s happening with revenue down less than 1% in constant currency in our fiscal quarter three. And we’re on track to implement more than $1 billion in savings since the separation, providing us opportunity to invest back into our business to drive long-term success for the company.

Second, we committed to delivering returns to our shareholders. We said we’d return 50% to 75% of free cash flow to shareholders through share repurchases and dividends, and to deliver at the higher end of
that range in fiscal 2016. We're on track to do exactly that. Through our first three quarters, we've returned 80% of our free cash flow, that's $1.8 billion to shareholders in dividends and share repurchases.

And finally, we said we'd invest to make decisions with a focus on long-term results. We're delivering excellence in our core business taking profitable share where we chose to play, reinvesting our savings to fund research and development and to innovate in order to accelerate our growth and future initiatives. Only a few short weeks ago, seems a lifetime ago, but a few short weeks ago, we made a significant strategic decision to acquire Samsung's printer business, which will accelerate our drive into the $55 billion A3 copier market where we're underpenetrated today. Said in other way, we're focused on delivering both for today and for building a business for long-term success.

Let me show you a glimpse of what we've accomplished in just 11 short months.

[Video Presentation] (11:32-13:12)

It's certainly a proud moment for us and a big proud moment for our engineers when we see everything we've achieved in such a short period of time. I really love our marketing department. They kind of make me feel like I'm at a rave instead of at a Security Analyst Meeting. But this is just a glimpse of the innovation we've been able to deliver this year alone, but we're not confused. This is still a volatile market facing pressures and uncertainties. Our core markets are challenged and the macroeconomic conditions are frankly in flux right now.

Meanwhile, on the other hand, our competitors are distracted and evaluating their options; Dell and EMC getting together, Lexmark sold to the Chinese, Xerox separating, or be it if you read the news today, maybe separating; and Lenovo otherwise distracted fixing their mobile and server businesses.

Yet our partners, and I spend a lot of time with our partners and our customers, they told me consistently that we are the pillar of stability right now. And frankly, they're absolutely right. I just came back from Barcelona last week at the Canalys event and this is a major channel industry event, where HP was recognized and awarded as number one in channel satisfaction for all of EMEA. This is the humbling honor, because it's the first time that a large company has actually won this very prestigious award. You see, we know how to deliver in both up and in down markets. The record pace of change in the industry is only going to accelerate; it's exponential, it's not linear, and our job is to turn that change into opportunity.

In addition to all of this, there are several disruptive forces that we see changing the market. The largest single trend affecting our business today across all of our businesses is that the consumer and commercial world are blending, and that's leading to a consumerization of IT and this affects everything we do.

Secondly, the large trend we see is it's all about Millennials. And if you have teenage girls like me, they remind you every day, Dad, it's all about Millennials. They tell me that all the time. Millennials actually though are not an age or a group, it's more a way of thinking, working, and acting. Millennials are the IT decision makers of today and the future executives of tomorrow. By 2025, Millennials will have accumulated $8.3 trillion in wealth and make up 75% of the workforce. They want outcomes and experiences, not just products or services that are capable of getting the job done.

Third is mobility and security. It's changing the way businesses will operate in the future. Mobility, of course, exploded with consumer, but the real opportunity, the way we see it and the real application is in the commercial space. 73% of COOs in a recent survey, said that mobility will have a more profound impact on their business than the Internet did; 73%, that's an amazing statistic. The opportunity is to transform workflows, it's not about products only, it's changing the way workflows work, all done securely.
For instance, take the healthcare industry and the incredibly analog processes that hospitals and doctors and patients have lived with for many, many years. Innovative mobile technologies enable hospital records to follow the patient around all the way from entry to discharge. With secure, ruggedized, antimicrobial devices, the experience changes based on who has possession of the device at the time and the permissions that were established by the super user.

Nurses have access, for example, to certain patient records. Pharmacists have access to select information in order to distribute medication. And the doctor is able to have access to of course everything, all from the same physical device. This drives efficiency, productivity, security and compliance. Similarly, security is incredibly disruptive force. The number, intensity, cost and sophistication of threats and hacks are all on the increase. It’s an ongoing battle against the bad guys. And security starts with prediction for data and devices right at the edge.

Fourth, is everything-as-a-service. This is what our customers are consistently telling us, that it is the clear acceleration to service-led and transformational-led motions. Globally, we see a six-point shift from transactional motions to contractual motions. The last disruptive trend is a trend that we have called Blended Reality. Blended Reality is our vision of a seamless physical and digital world. Blended Reality introduces a virtuous cycle of productivity and creation, with inputs like immersive computing and outputs like 3D Printing as seamless and intuitive.

So what does all this mean? It means our strategy is grounded in these trends, they’re shaping the industry. And it’s consistent with what we showed you last year, that’s also important. Strategy should not change every year and our tactics are grounded in the reality of the market conditions that we face.

I’ve sometimes referred to that as the ‘new normal.’ We’re executing and delivering on all pillars across core, growth and future. All pillars are supported by a range of incredible innovations. And as I said earlier, we have the best product portfolio we’ve ever had. The innovation engine at HP is absolutely cranking. We continue to aggressively protect, defend and innovate in our core. Our core business operates in an incredibly large $385 billion market and makes up the vast majority of our revenue and our operating profits today. We must be excellent here, protecting and defending our businesses.

We’re focused on a combination of operational excellence and innovation in order to deliver truly disruptive inspirational products and services that amaze. Profits from the core will continue to enable us to pursue growth markets and capture natural adjacencies that we expect to become more material over the next two years to three years. These markets have a total addressable market of approximately $150 billion, and we need to be selective and determine where and how exactly we’re going to play to win.

The third pillar is pure invention and category creation and what we call, the future. We’re making investments in world-class R&D innovation in categories that are going to set us up in the next 3 years to 10 years plus for our organization. Underlying all three strategic pillars is the foundation of services and solutions that we’re delivering; everything from Managed Print Services and Instant Ink, all the way through to device-as-a-service, security, manageability and support services.

While parts of our core R&D is in industry decline, our job is to reduce the glide slope. Those declining businesses are there and we need to be progressive as we segment the market to find the pockets of growth and aggressively focus our organization on those pockets of growth or the heat in the market.

Last year, I told you that we’d focus on three opportunities for growth in the medium term over the next two years to three years. In Personal Systems, we set out to reinvent the commercial mobility for all the reasons I just mentioned. In Printing, we said we were going to disrupt the A3 copier market and accelerate our growth in the graphics business and we keep our commitments.
In commercial mobility, we're deepening our mobility portfolio by delivering mobile solutions that transform workflows on the go, hoping the commercial enterprises and organizations transform those analog – very heavy analog process that haven't evolved for decades. This is the market that's growing at 15% year-over-year, that's what we call a pocket of growth. We're redefining expectations and our business is growing faster than the market. We announced the revolutionary Elite X3 at Mobile World Congress and it stole the show with more than 24 awards, some calling it a new standard for commercial mobility, that product is now shipping. Similarly, the Elite X2 is a multi-form factor device that outpaced our sales expectations in only a few short months.

Secondly, we said we'd grow our graphics printing business. This is a business where we've delivered 12 consecutive quarters of growth in constant currency. We are the undisputed market leaders in graphics printing with a broadest portfolio, an array of graphic solutions for large format commercial and industrial printing solutions. The digital graphics segment is growing at a rate two times to three times faster than analog, and we're well positioned here to accelerate the industry's transformation from analog to digital printing.

And in business printing, we set out to disrupt and reinvent the $55 billion A3, or copier market, a segment that frankly hasn't innovated in decades. Just a few weeks ago, we introduced a portfolio of 16 PageWide and Laser multifunction printers and platforms that deliver the performance, security, serviceability and affordable color to reinvent business printing and aggressively attack this segment.

A3 printing is one of our largest growth opportunities and most strategic priorities for the company. And it's also so important, as I mentioned earlier, that we have drastically accelerated our opportunity with a definitive agreement to acquire Samsung's printer business. This is the largest print acquisition in HP's history and proof that the separation has enabled us to invest in our business and accelerate opportunities focused in Printing and in Personal Systems. You'll hear more from Enrique on how we plan to leverage these incredibly valuable assets.

And let's not forget the momentum that we're building for the future, that longer-term horizon. We're delivering on our vision of Blended Reality. On the Immersive Computing front, we delivered Sprout Pro, transforming the classroom into an immersive learning environment and enabling creative professionals the world around.

And then in 3D Printing, this year, we introduced HP's LaserJet 3D printing devices to industry acclaim. This is the world's first production-ready 3D printing system. We will continue to work with our ecosystem of manufacturers, co-development partners and strategic partners like Nike, BMW, Autodesk, Jabil, Johnson & Johnson, Shapeways, Siemens and many more. Our aim is to disrupt the $12 trillion manufacturing industry and frankly to democratize manufacturing.

While we're delivering great business success through the course of this year through amazing innovation, it's not just what you do, what's really important to us is how you do it. Sustainability and diversity serve as guiding principles for the way we operate and how we do business. We are creating a brighter future through actions, solutions and technology that makes life better for everyone, everywhere. HP is a brand for the people. Sustainability is not only the right thing to do, but it also positively impacts both the top and bottom lines.

We announced a pledge to achieve a 100% renewable energy usage in global operations with 40% of that completed by the end of 2020, and I'm happy to report that we're running ahead of schedule. We also received a 10/10 for sustainability in Gartner's recent supply chain report – that meant a lot to us. Similarly, today's customer is more global and diverse than ever before. To be a successful global business, we must feel like, think like, act like and be as diverse as our customers are.

The next 1 billion eyeballs will not come from our current markets. Diversity helps us create sustainable business advantage both for today as well as into the future. Diversity shapes our thinking. Personally
having lived in eight countries ranging from Germany to China, I know firsthand just how different each market is. And the diversity of talent is going to require in order to keep us relevant to our existing and new customers.

Our commitment to diversity starts at the very highest level with our Board of Directors, two of them here in the room with us today. This is the most diverse, purposefully created board I’ve ever seen, with the diversity of thought, experience, race, ethnicity, gender and perspective. This flows to my management team, and frankly, our job is never done. It has to flow all the way down through our entire company. We have much more work to do, and frankly, the industry has more work to do as a whole. We’re committed to diversity and we’re shaping our organization and our entire partner ecosystem to come on the ride with us with new diverse thinking.

So, what can you expect from HP, as we move forward? Well, the financial framework of our business remains the same. Just as we said last year, we expect that continuing to execute on our strategy will produce reliable returns and predictable cash flows, while enabling long-term growth. It’s a balanced strategy. Across all segments, we intend to gain profitable market share, grow operating earnings over time, and this requires of course a relentless focus on operating efficiencies.

It means constantly looking at new ways to remove costs, structurally, operationally within the bill of materials systemically and also on a deal-by-deal basis. We’ve done, I think, a fantastic job on this today and we will continue to take costs out of the business by reengineering processes, reducing costs and streamlining operations. We continue our commitment to have a prudent capital allocation framework and that includes a commitment to shareholder return. It means constantly looking at ways to keep reengineering our business, it’s really critical. And then finally, we’ll make strategic investments to support our long-term profitability and few growth opportunities in the core, in natural adjacencies, and for our future.

As I look back on the year, we’ve achieved what we set out to accomplish. We’re delivering on our financial expectations. We’re executing on our strategy and we’re investing both organically and in highly-disciplined M&A. We have the best portfolio in decades and are delivering on our commitments to shareholders, to our partners, our customers, and very importantly, also to our people. These are all things that you continue and should continue to expect from us.

I’d like to think we’ve dropped a couple of dollars in the trust bank, and I expect to continue making deposits quarter-after-quarter through predictable delivery. Looking back, the marketing conditions were and are not easy. As we look into FY 2017, we continue to believe the markets will be challenging and perhaps even volatile at times. Given that we expect our top line will remain pressured, we need to continue to reduce our cost structure, while investing in growth opportunities that we mentioned earlier. This is built into our outlook that Cathie will provide a little later today, and we continue to manage the business for the long term. We have proven that we can execute and deliver our commitments regardless of market conditions.

During each of the coming presentations, we’ll provide details on what we see in each of the businesses, how we’re investing to turn that change into our opportunity. And then finally, guidance for FY 2017 will be provided by Cathie, later this afternoon.

Above all, I’m confident that we are well positioned and making the right moves to invest for the future. We’re an honorable company. We’re a company of high integrity, transparency and trust; that’s what you should expect from us. As the founder of Silicon Valley, we’re building on the legend and pride of HP to create anew. I’m certain that our very best days lie ahead of us. We’ll keep reinventing ourselves, our technologies and what tomorrow holds, so that industries, communities and individuals can keep reinventing how they operate and create what matters most to them.
Thank you, again, for spending time with us today. And please join me in welcoming our President of Personal Systems, the bad boy of Brooklyn, Ron Coughlin.

Ron Coughlin

Thank you, Dion. And as somebody who wants brand HP’s commercial print business, wishing that I had a great A3 solution. I have to say to Enrique and Dion, fantastic job. It’s really impressive what you’ve done with Samsung.

I also have to say, well, San Jose was great, but I really love being in New York City because I get to choose slide visuals from my childhood. 35 years ago, I took that L train to school every day. And my hope from today is that you think I did my homework a little better than my teachers did back in those days.

So last year, my key message was one of confidence and optimism. Confidence in our ability to execute leveraging our tremendous scale and optimism about our future in terms of the market and our ability to shape our own destiny.

And I join you today with a feeling that we do believe – we do deserve a gold star in our SAM 2015 homework. My confidence is cemented on the back of strong execution against each of the commitments that we made. And my optimism is bolstered by a gradually improving core market and tangible progress in our future initiatives, as well as growth in our adjacent markets.

We have made tremendous progress in the last year. We continue to reduce our cost structure, while delivering powerful innovation, enhanced experiences and all-time high share. Importantly, it’s a share that is profitable. We have a large addressable market. And as we predicted last year, the PC market is gradually improving. It’s kind of being like my Mets’ playoff contention. It came a little later than we had hoped, but it finally came. And if you look at Q2 versus Q1, we saw an eight-point improvement from Q1 to Q2 in terms of PC growth. And the consistency of our strategy for multiple years is really paying dividends and is helping drive the execution that you’re seeing.

And as we look forward, our muscle, our sweat and our ingenuity, are focused on doing two things. First, reinventing the PC while we can currently transform our portfolio to higher growth, higher profit segments; segments like commercial mobility, gaming and services. The foundation that we stand on is our ability to execute, whether market conditions are fair or foul. And in the PC industry, as Dion said, that starts with aggressive cost structure management.

In 2016, we will take out over $500 million of cost, focusing on non-revenue generating cost, logistics, manufacturing and consolidation. And if cost is a passion for the Personal Systems business, customer experience is a religion. And in 2016, between 2015 and 2016, we will improve our net promoter score by 30 points, a remarkable 30 points, with our x360 now reaching Apple levels. And that’s driven by delighters like a battery that will take you from New York to Shanghai, by amazing Bang & Olufsen sound or a laptop that doubles as a conferencing speaker.

And when you combine world-class cost structure with a better experience, share usually follows. Our team is very proud of delivering all-time high share, whilst staying sure to what Dion said three years ago, we do not chase share for share sake, instead striving for every unit of profitable share possible. And this disciplined approach is generating upward trajectory in profit, with significant expansion since SAM a year ago, that one in particular deserves a gold star.

And while we progress against the macro strategies, we drive at the initiative level every single day, and here too we’re pleased with our progress though the work is never done. We said we focus first on commercial share and we delivered, gaining 1.8 share points outpacing every competitor in the industry. We said we’d move our consumer mix to higher growth, higher profit segments and we delivered,
outgrowing every competitor in premium and gaming. We said we need to build these new categories of commercial mobility and commercial services, here too we delivered double-digit growth in both segments. I think it's fair to say, what we said we do a year ago, we're delivering against.

At our core though, we're a company about innovation. We're inheritors of Bill and Dave's legacies. We all wake up with one objective, to engineer experiences that amaze. And in the past year, our product managers, designers and engineers have done just that, deliver amazing compute experience across our entire portfolio. Customer said, I want a more modular desktop. So our engineers created the Elite Slice. You have the compute in one piece, you have an optional disk drive in another, and you have the audio in another. It also has wireless charging, it also has a communication hub. So when I talk about reinventing the PC, this is the type of device that I'm talking about.

Skeptics said, you couldn't fit a Core i5, Core i7 into the world's thinnest notebook. Well, thankfully, our engineers are a stubborn lot and they did fit an i5, i7 to the amazement of the rest of the industry into this amazingly sleek form factor. So it doesn't have a sacrifice on power or speed like many others did. The world's thinnest notebook is Spectre 13, they're available for sale right now at Best Buy, if anyone's interested or hp.com.

Gamers said, they wanted to custom configure their PCs, so our engineers created that beautiful cube over there, the OMEN X; just an absolutely gorgeous device. It actually has liquid cooling in it, which is cool, almost as cool as the form factor. But if you're one in 67 million gaming enthusiasts, the coolest thing is you custom configure it for your graphics cards, memory, et cetera. Think of it as the hot rod of today's generation. And going forward, we'll focus more on – I'll show you expansion areas there.

And end users, they told us they're frustrated with all of the devices in their life. How many of you here have a phablet, a tablet, a notebook and a desktop? A lot, right? That means, you have – I see some hands out there. That means you have a lot of devices and your content gets stuck in different places in your life. And on the other side, IT said, you know, we're really frustrated with having to secure these consumer-led devices. So our engineers created the world's first 3-in-1 device, the Elite X3, beautiful device creating an ecosystem across phablet, laptop, and desktop.

Let me now show you a video that brings all of this wonderful innovation to life.

[Video Presentation] (40:43-42:10)

How about a hand for HP's engineers? If Dion's video was a rave party, mine is more like a rock concert. All right. So, the Personal Systems business enjoys a $320 billion addressable market that is growing 3%. Let me repeat that. The Personal Systems business enjoys a $320 billion addressable market that's growing 3%.

I'm going to break that in two. Roughly half that market is what we call, PC adjacencies. This consists of growing segments like retail point-of-sale, displays, commercial mobility. In aggregate, these are growing 7%. Our job here is to scale as rapidly as possible. I shared the fact that we're driving double-digit growth on commercial services and commercial mobility, retail point of sale as well, we're gaining share with major wins in food and beverage, big box retail and sporting goods.

The other half of our addressable market is the PC market, which including detachables is projected a decline slightly over the next three years. The traditional PC part of that market where single-digit declines are predicted, we must gain profitable share, hereto, we have a track record of success. We have gained share the last 10 quarters in a row. And in detachables, which is growing double digits, we must scale to get our whole portfolio into profitable growth. And last but not least, I'm optimistic because the PC category trend, while still uncertain, is improving and outperformed forecast last quarter. On the left, we've mapped IDC's detachable growth rates and analysts predict low single digit declines for the rest of the year.
At the same time, it’s becoming clear and clear to us that we cannot paint this market with one brush. So on the right, what we’ve done is we’ve mapped what we call the pockets of growth. These are profitable growth segments like premium, gaming, hybrids, and mobile workstations. The most remarkable number on this page is the 45% you see there. Three segments gaming and premium, plus hybrids, plus mobile workstations represent 45% of the revenue, they’re only 26% of the units, 45% of the revenue, and 26% of units. They’re higher price, which means they’re even more of the profit pool. So increasingly we’re looking and more and more at pockets of growth. They’re growing in aggregate, we have headroom because we tend to be lower penetrated in these and importantly we have momentum.

So this provides a view on the market here and now. Let me now take a step back talk a little bit about the macro trends that will influence our future.

As Dion said, there is enormous change in our market and change equals opportunity. From a customer standpoint, the first trend is this blending of consumer lives and commercial lives. We call it one life. Folks no longer have a commercial life and a personal life, they’re all blending into one. Let’s take my home all-in-one one minute my home all-in-one will be working on an industry analysts presentation and the next minute it’s Battling Warriors and League of Legends II from my 11-year-old, let’s take this Elite Folio right here.

Is this a consumer device or is it a commercial device? Beautiful, thin, happens to have military grade specs, happens to have commercial security, consumer or commercial. The answer is, that is a gorgeous device that end users love, that fits with any other consumer device in their life, but IT loves because it has the specs that they need, and that’s where the future is going, is more and more of what you see us do is blend, gorgeous consumer design with the specs that commercial markets are looking for. That device actually won Best of Show at CES. CES stands for Consumer Electronic Show, yet it’s a commercial device, just a great manifestation of one life.

The second trend is around what we call the continuum of compute. And what this says is, people all of us have many devices in our lives and we need to decide, which device to use based upon the complexity of the task at hand. But what’s happening is those lines are blurring, right, the old category lines are blurring. If you look at detachables, detachables are taking many of the uses, the tablets were used for two, three years ago, surprise, surprise, tablets are declining or take the X3, the X3 spans from phablet to laptops, to desktops, again blurring those lines. So as we go forward, we believe category lines will continue to blur and compute will go from PCs to enhanced mobile devices to headsets, to the various surfaces around us and between our vision and our capabilities, we believe, we will play a key leadership role in that transformation and benefit from the transformation.

The third trend is around Everything-as-a-Service. It’s absolutely coming to PCs, mobile devices and retail point of sale. The CapEx to OpEx shift, that freeing up of IT resources are just two powerful value propositions for companies to pass on. Earlier this year, we signed a deal with The Coffee Bean for a retail Point of Sale as a Service, retail Point of Sale as a Service allowing them to take their precious capital and put it into new fittings, store expansions or other things to drive their growth. So in aggregate across these three trends, we see HP’s vision, a unique ability to tap into these as opening up potentially hundreds of millions of dollars of brand new addressable market to fuel our future growth.

And we built a strategy to capture these opportunities and that strategy has been consistent for multiple years. If you go up to any of my team members and ask them what our strategies oversight this page and it’s that consistency and that ends an alignment that’s helping us drive the execution that we’re seeing today. At the highest level, we are leading a reinvention of the PC while we transform our portfolio to higher growth, higher profit segments. And this comes to life in our core growth and future strategy.
In the core, we continue to focus on delivering the world’s best price feature value, combining world-class cost structure with what we call innovations, sprinkles of magic. In our growth bucket, we’re focused on commercial services, commercial mobility and retail point of sale. And the good news here is, we have momentum today and we have new initiatives like the X3 or Device-as-a-Service going into the market to maintain that momentum.

In our future, we power it by engineering innovations across 3D scanning, AR/VR in the office and classrooms of the future. And these priorities set on an amazingly strong foundation, Advantage Services due to our main MPS capabilities. Advantage of supply chain where we ship a PC every 1.7 seconds and we are the number one customer for the PC, ODM ecosystem and our marketing engine that is firing on all cylinders. Thanks to my friend Antonio Lucio. 12 billion impressions for all these great innovations in the last year. 12 billion impressions won for effectiveness and Lions won for creativity at the Cannes Advertising Festival, really lighting up our innovations.

So focusing on our core for a second. Our focus on cost is relentless and this takes more importance in an environment, we have tightening commodity market, which seems to be the case right now. So last year, I told the story about a brilliant cost engineer, they came to me and said, Ron, I figured out a way to go from 10 connectors to 5 connectors, saving a few pennies. So this year my story is about two notebooks and the displays in those two notebooks, 2015, 2016.

And this year, the cost engineers took a look at this little metal bracket here, and they said, you know what, do we really need that little metal bracket here or can we take it—make it smaller, can we make it plastic and basically get rid of the metal bracket without any impact on function, reliability et cetera? And the answer was yes and the answer provided us with $0.20. $0.20 might not seem like a lot to you, but when we have hundreds of $0.20 ideas, times millions of units, guess what happens, that profit rate that I showed you earlier starts expanding. We can invest in gaining share, we can invest in future initiatives. So we will continue that aggressive, aggressive cost-out march.

We combined that, however, with sprinkles of magic. So a sprinkle of magic could be a gorgeous rose gold PC that others are now following. A sprinkle of magic could be the world’s only self-healing BIOS negating the impact of many of the viruses that hit corporate America today, or it could be a gorgeous convertible hinge that allows you to do wonderful things. It could be any of those, but they add value on top of cost. But one of my favorites is something we announced about three weeks ago, which is a built-in privacy screen into notebook. So how many people have been on a plane and you had somebody looking over your shoulder at your work.

How many of you’ve looked over someone else’s shoulder for their work, no one admit that. So I was on a train from New York to Boston a few weeks ago and I swear to you, for three and half or the four hours, the gentleman next to me looked over my shoulder at the presentation that I was working on. Thankfully it was an external thing, so I don't worry about it. But look, it's a problem called visual hacking. 90% of the time visual hacking is successful. Only HP has launched new product that has built-in privacy screen, working with 3M. Let’s take a look at a video that brings the problem and the solution to life.

[Video presentation] (53:00-53:42)

Pretty cool solution. All right. So we launched this in two of our EliteBooks right now and then we'll take it down the line. But for me, it is a fantastic example of sprinkle of magic, because it adds tangible customer value to a problem, but guess what, it only costs us a couple of dollars and it’s that value equation that really allows us to maximize price future value. So, talking about extra dollars, in premium and gaming, our long-term intent is to lead. And our progress in last year is truly remarkable, behind breakthrough products, improved customer experience with Win 10 and better marketing.
So, focusing first on the premium PC market. What you see is HP growing strongly and we’re taking share, importantly not only from Windows premium players, but from Apple. For the first time in many years, we are taking share from Apple. We gained nearly four share points of the premium market in the past year. It’s HP’s designers, who’re increasingly setting the trends on premium design. It is HP’s engineers that are increasingly setting the trends on premium form factors and make no mistake about it, it’s HP, who is growing the most in premium PCs.

Now if we talk about gaming for a second here too, we’re up 300% on one Chinese online retailer, we sold 5,000 PCs in three minutes. 5,000 gaming PCs in three minutes. The momentum is fantastic and importantly it’s bringing millennials into the HP franchise. We’re building a credible brand in Omen. You’ll see us expand our lineup – actually up here you can see our virtual reality backpack, which has gotten a great response at our marketing push behind gaming going forward. And lastly, our multi-OS strategy is progressing well with continued growth on Chrome and we’re expanding our leadership of the market, which is one of the hotspots in the category.

Focusing on growth as Dion stated, from a mobility standpoint, we are scaling well. Mobility is a $42 billion market, growing 15% with no clear winners or losers in a frustrated IT community, who is having difficulty making these consumer oriented devices, secure in their enterprises. Our participation really accelerated with the Elite x2, the first detachable that’s truly no compromise. End users love it, it’s got a gorgeous form factor and IT loves it, because it’s manageable, it’s secure and unlike the surface, it is serviceable by IT.

We’re following the X2 with the groundbreaking Elite X3, which isn’t a device, it is an ecosystem. So you have the phablet, you have the Lap Dock and you have the Dock. For the first time, this paradigm-busting device has comparable power to a standard PC, the fruit of significant collaboration with Microsoft and Qualcomm. Let’s take a look at a video that brings this to life.

[Video Presentation] (56:58-58:11)

A great example of the blurring of lines that I talked about. And what you’ll see increasingly, we’ll take these in other devices and ladder up the stack to mobile workflow transformation in verticals like retail, healthcare and field services. A great example comes from Europe. We’re working with an ISP who specializes in the pleasing industry. What they all be selling to their customers is the officer who’ll be carrying an x3, but then when they go in their car, they will dock that x3 and they’ll get a full screen compute experience in that squad car, a great example of mobile workflow transformation.

The next component of our growth strategy is around services. So there is two components to these services. First is the core services. This is offering like installation, configuration, extended support, it’s the majority of our revenue today, deliver strong profitability and orders have grown double-digits in 2016 despite declines in the hardware business, that’s driven by an increase in penetration where we’re up almost 1 point on penetration, which is strategically really important to us.

The second area is Device as a Service, which is scaling rapidly. Key trends like CapEx to OpEx, increase in device management complexity and BYOD are driving a lot of interest in this space. Nearly 40% of companies stay an interest in Device as a Service, that’s up – that’s doubled since last year. Doubled the interest in last year. And HP is uniquely positioned in this space because of our managed print services, because of our global scale, and because of our security tool sets, and capability. Our progress here is really encouraging. This is an area where we’re doubling down.

And last, future, our third pillar our strategy is really return to our roots. And I don’t mean the L train, I mean the garage and the legacy of new category creation. We are focused on three areas here. The first is Immersive Computing, really a category that we built last year with a launch of Sprout. It’s a key part of
the blended reality ecosystem and as we go forward you’ll see us focus more on commercial, you’ll see us focus more on the $7 billion 3D scanning market.

Our strategy was accelerated earlier this year with the acquisition of DAVID Laser, which provides powerful 3D scanning IP and knowledge. And a great example of this coming to life is a partnership we have with a company called Superfeet to develop a revolutionary custom footwear solution. Superfeet is a leading provider of insoles to 4,000 U.S. retailers, and together we’re developing an in-store 3D foot scanning solution enabling custom 3D printed insoles, really, really exciting stuff, and our future coming to life.

There is also a lot of buzz about AR/VR, but a lot of that buzz has been about the consumer space. We believe commercial is equally if not more exciting and we believe HP has a right to succeed in that space. There are number of verticals like entertainment, design, manufacturing where AR/VR will absolutely help those workflows. But in the here and now, AR/VR requires guess what, a lot of computational power. We lead in guess what, workstations, 40% share of workstations, a huge recipient of that scaling of AR/VR as well as gaming as our scanning business scales, we tie more and more to AR/VR. We are very well positioned here. And then lastly, our teams are designing new experiences for offices and classrooms of the future. A great example is what we’re doing in collaboration, whether those be in large conference rooms, the huddle rooms that you see popping up or on desktops, more to come in this space.

So, if I was sitting there, about this time, I’d say, okay, what is all this fancy strategy, and innovation, how does it have an impact on creating an improved business trajectory? We believe the answer is over time, it is transformational. So what you see in the orange on this chart is the traditional PC business along with the market is declining. However, our strategy allows us to diversify away from traditional PCs into more profitable and faster growing pockets of growth PCs, like premium, like detachables that you see depicted in yellow. And this is complemented by growing PC adjacencies, like commercial mobility and commercial services, which serve to further improve our trajectory.

And then the future initiatives like 3D scanning will only provide additional growth, bend that curve more. And importantly, everything above that orange part is growth rate accretive and profit rate accretive. This is not a concept, between 2015 and 2017, we will reduce our mix of traditional PCs by 10 points. Our mix of traditional PCs will reduce by 10 points. If we fast forward to 2020, we anticipate less than 40% of our mix will be traditional PCs. What does that create? That creates a faster growing, higher profit rate business.

So to summarize, we have a large addressable market that’s growing. Our strategy has been consistent and we’re executing against it. We’re lighting up the market with our innovation with a robust pipeline of future innovations ready to go. And our go-to-market whether it is retail, whether it is commercial channel, whether it’s enterprise is absolutely second to none. So, please leave your confidence in our ability to execute through choppy PC markets and optimistic in our ability to transform this business towards profitable growth.

Thank you for your attention. Now, let me introduce to the stage, the Prince of Print, Mr. Enrique Lores.

**Enrique Lores**

Thank you, Ron. What you and the team have done on the PC business is incredible. Thank you for the contributions. And welcome everybody. It’s great to see some familiar faces, but also to welcome some new faces as well.

A year ago when we met last time, I had just started to run the Print business. Today, I’m proud to share the progress we have made during the last 12 months. It has been a difficult year but a year where we have made tremendous progress. And through the year, I have had the opportunity of meeting many of you.
And you have been very clear with the questions that you had. The questions that you had about our ability to grow this business in a market that was not growing. Your questions about the assumptions that we use in our 4-box model. And your fundamental question about what is going to happen with the supplies business and whether it will really stabilize by the end of 2017 and this is what we will be discussing today.

So let me start by saying that Steve and I are extremely focused and committed to get the Print business back to growth, and the print market is well analyzed. As I said last year, there are a lot of rumors about the print market to be there, but again as I said this reminds me the sentence that Mark Twain said many years ago, the rumors of my death have been greatly exaggerated. This completely applies to what happens in the print business. It is still a large market where there are opportunities for us to continue growing. And HP is the leader in this industry.

We lead every category where we play and of the top 45 countries in the world, we are the number one or number two vendor in 42 of them, this is what we call leadership. And we have a very clear strategy, very consistent to what we explained a year ago, which is focused on few things. Reigniting the home, disrupting the office and transforming the graphic arts industry. And we have proven under very different market conditions that we know how to manage this business better than anybody else in the market and we will continue doing that.

And as we have said repetitively during the last month, we are not confused. Everything that we do in this business has one objective, to grow our supplies business, because this business is all about supplies. So let me share now some of the progress that we have made in the business during 2016.

And 2016 has not been an easy year, has been tough market we have found – we have faced tough market, we have faced volatile currencies, and we have made strong progress. For example, unit decline was reduced by half from Q1 to Q3 from minus 20% to minus 10% and we expect that to continue in Q4. We have grown our share both in ink and laser quarter-over-quarter since Q1. We have increased average revenue per unit, both driven by price increases but also by mix changes.

And we have improved customer satisfaction both for consumers and for commercial customers, for business customers. And you know that this is a very good prediction of what the performance of the business will be in the future. And we committed to you a year ago, to continue delivering and continue to reduce our cost structure, and we have removed from our cost structure more than $0.5 billion, great reduction on cost, that has enabled us to be more competitive in the market.

And finally, even if the supplies business has declined, the decline has been aligned to the predictions that we have in the 4-box model and this gives us confidence in the projections as we have in the future, in the projection that we have that the supplies business will stabilize in constant currency at the end of 2017.

On top of making progress on the operational side, we continue to make progress on the key strategic initiatives that will help us to transform the business going forward. Let me walk you through some of them. In the home space, in the consumer space, we’ll continue growing our Instant Ink program, the program that we have designed to remove a barrier from consumers to print more.

And we’ll have also increased the number of pages coming from mobile devices and as I will explain what trends that we see in the consumer space, you will see how critical this is for us now, because mobile – from mobile devices is from where majority of the growth of the pages is happening now.

In the office space, we announced last year, our determination to grow in today’s free copy space, this is an important adjacency where we have an opportunity to grow our business. And only three weeks ago, in our Global Partner Conference, we announced a new full portfolio of A3 multi-function printers that is
going to be helping us to disrupt this industry. And we will back combining the HP PageWide technology and the technology that we are going to be acquiring from Samsung.

And the Samsung acquisition is going to be critical for us to grow in this space and I will be covering this in the next slide. But in the office space, as in other segments not all units are equal and we have continued to place in the market more valuable units. Units that consume more – three more pages, units that consume more toner and we did that in our multifunction printers. And we have continued growing our managed print service business, posting 13 continuous quarters of growth.

So, let me talk now about the Samsung acquisition and why do we think this is so critical for us. I need to also stress one point. We are combining great technology developed Samsung, great technology developed from them with a scale and go-to-market reach that HP has. These are great combination of assets. And the technology from Samsung is going to be enabling us to disrupt the copier industry. We said the copier business was attractive for us, but that we didn’t want to compete in a traditional way. We wanted to disrupt that industry and we will do that, because the printers that we will introduce from Samsung and from PageWide have something in common.

They deliver their performance that until now only copiers had. They deliver the printer speed, they deliver the cost per copy that only copiers had until now. But they combine that with a simplicity of printers, which will enable our partners to significantly reduce their service cost, which means that they’ll be able to be more competitive in the offerings that we’ll make to their customers or they will be able to make more money when they will be selling HP products. In any case, a win solution for our partners that will attract key retailers into the HP space. So, disrupting the copier industry is a key factor of the Samsung acquisition, but this will also help us to consolidate our presence in the traditional printing space, where we expect to maintain the relationship that we have with Canon.

And the acquisition is clearly an investment in our future. We are acquiring more than 6,500 patents that will complement our very strong IP portfolio in printing, but we are going to be integrating also into our teams more than 1,300 great engineers from Korea. That will help us to continue developing this technology into the future, helping us to continue driving innovative solutions in the market.

The acquisition will take between 9 months and 12 months to close and we didn’t want to wait until the end of it to start selling the HP products into the market. So we have built – we have agreed with Samsung in a commercial agreement that will enable us to sell their products under the HP brand in Q2 2017. So we will be able to start making progress to disrupt A3 copier space in the middle of next year.

Let me go back to the progress that we made during 2016. I talk about the progress we made in the home space, in the office space, let me talk now about graphics. Graphics is a growing segment for us. We have been growing that in constant currency during the last 12 quarters, but something really important happened during 2016. In 2016, drupa happened, and drupa is like the Olympics of the graphic arts industry. It is a trade show that happens every four years in Germany, and is the largest trade show in this industry.

And this drupa had two big differences. Difference number one, is a first year where digital players, digital technologies overcome to show. They were more important than analog technologies. Usually in the graphic arts industry, customers still use technologies that were invented a 100 years ago, 150 years ago. Technologies are required a lot of manual work, that require operators to touch complex chemicals. And we are changing that with digital technology. And in drupa 2016, it was a first year where digital was dominating the show.

And the second important thing is that within the digital vendors, HP was the leading company. We've had the largest booth. We've had every day in our booth more than 12,000 visitors per day and we exceeded by far the sales target that we had in the show, it was a great success for us and a testimony of the leadership that we have in the graphic industry.
To close now on the progress in 2016, let me talk about HP PageWide. We introduced this a couple of years ago as our third printing technology. And in HP PageWide, we integrate and we leverage years and years of experience, developing new inks, developing printheads, developing writing systems. And these are key technologies for us, because enable us to introduce in the market disruptive value propositions. As we did in the office, where the printer that introduced, and support PageWide at twice the speed at half the cost of other competitors with other technologies.

During 2016, in the three segments, where we had HP PageWide, we made tremendous progress. We made tremendous progress in the office, we made tremendous progress in digital presses that support HP PageWide and we gained significant share in large format production where we introduced this technology as well. Just as an example, in large format production in less than a year, we were able to grow our share by more than 30 points. 30 points in one segment, where HP had not be present today so far. And this gives us confidence that as we introduce this technology in other market, we will be able also to disrupt them and to grow them. And this will be especially relevant as we introduce it in the A3 printers that will disrupt the copier space.

This has been the progress during 2016. Let me talk now about the future and let me start by sharing how do we see the market, how do we see the different segments of the market evolving. The print market is a $200 million market and is going to be flat during the next years. But we see in that market, there are significant pockets of growth, opportunities for us to disrupt and to grow. Let me highlight some of them.

The home space is going to be declining. We expect that home market to decline around 4% in the coming years, 4% year-over-year. But within home, we expect to see significant growth of printer – of pages coming from mobile devices, so we are going to be shifting our focus from traditional PCs into mobile devices and capture pages coming from those devices.

In the office space, there are three key trends to share. First of all, the market will be stable and as you can see the market will be growing around 1%, we expect significant consolidation to happen. Today, there are more than 12 players in the office space and we think these are too many for this market, and we think that in the next years, we are going to be significant disruptions having in this area. And we have started to see some of them, the changes happen in Xerox. The fact that Lexmark was bought by a Chinese company, Sharp being acquired by Foxconn. They’re already starting to indicate that changes are happening. The acquisition of Samsung will position us in a strong way to take advantage of this consolidation as they start to happen.

Second key thing in the office space is on the copier side. Copiers are a key adjacency for us, a key opportunity for us to grow. It’s a $55 billion market where HP has very small presence. And we are going to be gaining share in the space by disrupting it.

And finally, in the office space, we see continuous growth in the managed print service space. We have been growing that business and we will continue driving that business into the future, because customers look at one’s partners that will help them to manage their overall printer fleet. That will help them to remove the cost and the work that managing the printers, managing the supplies and making them work requires from them.

And let’s close by talking about graphics. The graphics business will continue growing, will continue growing at around 2%. But digital will be growing between two times and three times faster than the analog business. And this is a market where we are focused, this is what we’re going to be driving. And within graphics, packaging is starting to become the new battle field. At drupa, we announced a full portfolio solutions covering all the segments of the packaging space, so we are very well positioned to capture the growth in this area.
We wanted to spend some time talking about the market, so you can integrate our view as you define the models, as you define the projections about where this market is going to be growing.

And let me talk now about the future. Where do we see this market going, what are our strategies? But before I do that, let me share the confidence that we have in this business. And we are confident in the future of the Print business, because at HP, we believe in the power of print. We believe in the power of print as a way for consumers, to share their feelings, to share their memories. As a way for professionals, to share their ideas in an efficient way. I remember that every year in the office, more than 4 trillion pages are printed. And we believe in the power of print, as a way to enable brands, to communicate with their end users in a different way. As graphics is adopted, our personalization transform labels and packaging into marketing tools. This is what we believe in this business.

During the last months, we have been working with some of our customers to collect what they think about print. What value is print bringing to their lives? So let me share a video that shows the value that printing has worked for them. Let’s roll the video.


So let’s talk now about the future and what are the strategies that we have and that we are going to drive to grow the Print business. The key area focus for us is our supplies and we will – every action we take across our core growth or future segments has one consistent objective, get the supplies business to growth, it's about capturing new pages, it's about creating new print opportunities because as we do that customers’ consumer pages, which means our supplies business will be growing and we have different strategies for our core, our growth, for our future segments.

In the core, we have two strategies. First, is about reigniting the home. I showed you that the home – overall market in the home was declining. Our goal is to slow down the decline and create opportunities for us that way.

In the office is about capturing profitable share – profitable share and doing that by offering a differentiated value proposition. We have two growth strategies. One or first is to grow by disrupting the A3 copier business. We will do that with the combination of the portfolio – of the printers coming from Samsung and from HP PageWide. And the second growth strategy is to continue to transform the graphics industry from analog into digital and creating new opportunities for printing as we do that and we have one growth opportunity, one future opportunity, which is to transform the manufacturing industry and Steve Nigro in the next presentation will be giving details on how are we going to be doing that one.

All of our strategies are based on four key pillars. Pillars that will enable us to continue growing, that will enable us to make these strategies real.

Pillar number one is our ability to innovate and bring innovative solutions to the market based on key new technologies. Pillar number two, is the value of our brand and the breadth and the coverage of our go-to-market teams.

Pillar number three is the strength of our operations and the leading cost and quality that this enables us to do. And pillar number four, are the HP people. People that have years and years and years of experience in the print industry that any of our competitors will look to have in their teams. This is what makes the HP plan and the HP strategy special, the combination of these four strategies.

Let me go now in more detail through some of them and let me start by talking about supplies. What are we going to do to grow our supplies business? The supplies business seems simple, but in reality it’s very complex, because it requires the combination of multiple different actions on multiple different activities. This all starts by placing the right units, by either growing the installed base or improving the quality of the
installed base. Then we need to drive the usage of the printers' path. We need to get customers to print more.

Third, we need to grow the share of HP original supplies. And four, we need to make sure that we do that with competitive pricings with stable pricing. The combination of all these activities is what drives the supplies business. And this is what we call our four-box model.

And today, we are going to be sharing more details about the four-box, details that you have been asking from us during the last quarters. But before I do that, let me share the progress that we have made during the last two quarters in changing the supplies model.

In June, we announced that we were changing our go-to-market model for supplies. And we say that we were changing that by shifting our focus from selling with aggressive prices and aggressive discounts into the channel, evolving that and moving the focus to create end user demand. So end users will be buying, pooling supplies from resellers and we'll be pooling these supplies from distributors, a significant change in how the Supplies business has operated during the last 30 years. And we are very happy with the progress we have made. We executed as per plan in Q3. We are executing as per plan in Q4, and we expect to see the benefits of this change in 2017 as we had previously communicated.

In fact, during 2017, we may drive similar changes in how do we manage our hardware business, shifting our focus only from selling hardware to distribution to sell out hardware to end users that will enable us to be more efficient. Because these changes have three significant benefits: enable us to reduce the money that we spend in discounts, therefore, saving money; enable us to operate with lower inventories end-to-end and providing better pricing stability. Pricing stability is critical in an omni-channel world where there is price visibility across the world across multiple channels. This is why we thought changing this the way we were managing supplies were so critical.

During the last quarters, you have been asking us about our four-box model. What are the assumptions that we have in the model that help us to predict or drive us to predict that supplies will be stabilizing at the end of 2017? So let me share with you some of these assumptions. Let me share with you how do we expect these models to change. In the slide, you can see across the four boxes and across the three segments, what are the key assumptions that we have.

So let me walk through them. In the office and home space, we expect the installed base to decline – the number of printers to decline. We also expect the usage per printer to decline, but we expect the quality of the printers to grow, meaning the printers that we will be placing will be consuming more ink. We expect the share of HP original supplies to grow, and we expect the price to be able to grow. And the share increases will come from technology refreshers and key marketing programs that are on the globe.

In the graphics space, we expect different behavior. The installed base will continue growing and it's important to remember, as we have said many times, that not all printers are equal. And since we said this several times, we said it was good to make these – to show it live, so you can really remember that. When we sell or when we install one of the high-end digital presses, this is equivalent not to 100 home printers, not to 1,000 home printers, not to 10,000 home printers, not to 100,000 home printers, it's equivalent to more than 200,000 home printers. This is the value of some of these digital presses. So, for all of you to remember, this is the cartridge that we install in one of our home printers.

These are the barrels of ink that we sell in our PageWide presses. And to make the comparison fair, they actually have three color cartridge, so I should bring three of these barrels to make it equivalent. So this is when we talk about the value of the printers, and the fact that not all printers are equal, remember the difference between these tiny cartridge and the barrel of ink that we will be selling to our PageWide press.
The high share that we have in supplies is actually driven by the very strong value proposition that HP original supplies have, value proposition based on quality, reliability, and durability of the prints that customers can create using HP original supplies. So we'll show a video that will make that real for all of you.

[Video Presentation] (01:31:51-01:33:10)

As we have talked about our Q4 supplies model during the last quarters, you have also asked us how we are managing the quality of the shipments that we do. So, in the spirit of being more transparent, I'm sharing with you some more information. Let me share with you the model that we're using and how the quality of the shipments have been changing.

We classify every unit that we shift into five categories depending on the gross profit – on the gross margin that these units will generate over their lifetime. On every quarter, in every region, I mean the top countries, we generate a plan that optimizes that mix – optimizes a mix based on the competitive situation, based on our financial objectives, based on the market realities. On quarter-over-quarter, there might be evaluations driven by specific competitive moves, product launches, consumer behavior, seasonality, but over time it is possible to see a very clear trend.

So when we compare the units that we will ship in 2017 versus the units that we shipped in 2015, you can see how the mix of the units in the top three brands is growing by five points, while they wait of the unit in the lower band is decreasing by seven points or another way to look at this. If we assign a value of 100% to the units that we shipped in 2015, the units that we will ship in 2017 will be 18% more valuable. We'll generate 18% more value than the units that we shipped in 2015. This is one of the key assumptions and one of the key drivers of the growth of the supplies business going forward.

Another one of the key variables of the model is share, market share of HP original supplies. And as I said before, every action that we take in the different segments has one objective, to have an impact on the supplies model. So, as we drive the transition from a transactional model in the graphics business, in the home businesses, or in office, as we move these businesses into what we call a service-oriented model into a model. This has an impact on the – overall on the supplies share. And this shows you the expectation that we have for these businesses.

In 2016, 15% of our business was down in a service-led way. We expect this mix to grow by 10 points in the next two years to 25% and we expect the mix to grow another 10 points to 35% by 2021, a significant change that will help us to continue growing our share of HP original supplies.

So let me go now back to our strategies. Analysts are talking about the strategies that we have for each of the segments. First, I will cover our strategies for the core segments, and Dave Warner will talk about the two growth strategies. But let me start talking about the home. In the home market, we are the clear leader, but customer expectations have changed, customer behavior have changed. So we also need to change our plans, we need to change our portfolio.

Let me give you an example on how this will be changing. Everyday consumers all over the world make millions and millions of photographs with their mobile devices, but these photographs stay in their phones. They are prisoners in the phone. They stay in the digital prison – in the digital jail. And we have one mission in life, we want to release those photographs to the real world. We want these photographs to see the light of sun again, because those photographs want to be touched, those photographs want to be kissed. So let me share a very personal experience.

My grandmother died a few years ago when she was 95, and she had lost her father when she was 25 during the Spanish Civil War. So, for more than 70 years, every night before going to sleep, she kissed the only photo of her father that she kept. And Ron, I loved X3, but I cannot see her kissing the X3 every
night. And this is the power that printing has, the emotional connection that you can bring to something when you have a hard copy of it. And releasing those photos from the digital prison is our objective and we’re going to be reigniting the home business.

So what do we need to do? First is, we need to make it easier to print from mobile devices. And we are doing that by reinventing and creating new applications that will drastically simplify that and we just released an All-in-One application that not only transforms your phones into a digital scanner, but drastically simplifies the printing process – the printing experience.

And I encourage all of you to download the application because your printing lives are going to change. And we’re working with all the key players in the mobile ecosystem, with Facebook, with Google, with Tencent in China to reconnect printing to the social applications and to enable the ways for consumers to print. But we also know that is not only about making it easier to print, we need also to make their printers more attractive, we need to change how printers are being designed. And we need to learn from the progress that our Personal Systems team did and reflecting our printer’s value of design, the value of using new materials, the value of using personalized colors, and we’re doing that.

We just introduced our new LaserJet family that has been designed for millennials. It is not only the old, smallest all-in-one, but it’s a family of printers that has been designed to be shown in the living room not to be hidden under that table. It’s a family of printers that has been designed to make it very easy to print for mobile devices. Let’s roll the video that will make – bring this to life.

[Video Presentation] (01:40:14 -01:41:15)

But it is not only about changing how do we design our printers, it’s also about creating new printing concepts. And you have heard Dion and Ron talking about pockets of growth. Let me talk now about sprockets of growth. And I hope you like that joke, because it’s a joke that Dion suggested me to do. So this is the new HP Sprocket. It is a printer that has been designed to be used on the go. It is a printer that has been designed for millennials, because what we know is that the time where customers took a picture – took a photograph and they wanted or they went to print it three or four days later at home, are not there anymore.

Millennials want instant gratification. They want to take the picture and at the same time share it with the friends, share it with the families. And this is what Sprocket allows. It has been designed to be used for mobile devices and create new print opportunities, new ways of communicating with print. And we see this as a new category of printers that we are exploring, and that we think will continue or will help us to reignite the home space.

And finally, what else are we doing in the home space to reignite it? We’re removing the barriers that print has today. We know that when we ask consumers why don’t you print more, we get two very consistent answers. First, because when I try to print, I forgot to buy cartridges the week before when I run out of them, and my printer is not working when I need it. And yes, I need to print my kid’s homework but the cartridges are not working. And second comment we get is, your cartridges are too expensive.

So we have addressed both the issues, and this is what Instant Ink addresses. Instant Ink is our web service where we monitor the consumption of ink. And before the printer runs out of ink, we ship a cartridge to the customer’s home, and we reduce the cost of printing by up to 70%, it has had tremendous acceptance in the countries where we have launched, and we’re going to be expanding that to more countries during 2017.

Let me shift gears now and talk about our strategies for our core office business. And it is very simple to who we want to grow profitably our share and we want to do that by offering a differentiated value proposition, and our value proposition is based on security. Security has become the number one concern for CIOs all over the world, and printers are a vulnerable part of the network. They can be hacked in the
same way our PC can be hacked. And they provide an entry point for hackers. So from the printer, the company track the full network.

So at HP, we have developed the world's most secure printers. And I'm saying that in front of our legal counsel so you believe that when I say that, this has been checked several times by our legal team. HP has the most secure printers in the world. We have integrated all the great technologies that Ron and the team have developed for PCs and we have built them into our printers.

And this is very important for us not only to be more competitive but also enables us to grow our business in the office space, because this is a great incentive for corporations to replace their printer install base to make it secure while they understand the security issues that printers can have. We're going to be also introducing our new printing technologies into the office space.

I talked last year about JetIntelligence and the value that JetIntelligence was bringing in allowing us to do the printer smaller and to reduce energy consumption. In the next week, we're going to complete the rollover of JetIntelligence into our full LaserJet family. And all our family will already have that technology. And we're going to continue growing our Ink in the Office business that enables us not only to grow our share in the ink side, but also to accelerate our growth in the laser space.

And finally, we will continue growing our managed print service business, expanding that or continue the expansion from direct into the channel space where is where we see the more the biggest opportunity to grow.

Let me talk now about our growth opportunities. What are we going to do to grow our business? The first growth opportunity we have is to disrupt the copier space, a $55 billion market where HP is underrepresented. And we are doing that by introducing a disruptive portfolio, a portfolio of printers that have the capabilities of copiers. The speed of copiers with the simplicity of printers, so the lower service cost that printers has. And this improves the value proposition for the resellers that will be using these printers that we'll be selling these printers. So let me share a video that highlights the value of the HP portfolio into the A3 space.


The simplicity of the printer architecture will reduce the service cost of these printers. To maintain that advantage of their time, we have made these printers smart devices. We have embedded into the sensors that can be managed remotely, that will enable our resellers to manage them remotely, download so far and monitor the status of the printers. And this over time will continue to reduce the service costs, which is going to be the key differentiator that HP will have in this space.

And we know that to grow into the A3 copier space, we need to transform our go-to-market model. We will leverage, of course, the strength that we had in the transactional space with the key resellers that we have. We will of course leverage the capabilities that we have built in Managed Print Services, but we need to attract to the HP family a new set of partners, a new set of copier resellers. And this is why we announced this portfolio at our Global Partner Conference. We brought there more than 300 resellers that left the meeting fully enthusiastic about the strength of the HP portfolio and of the commitment that HP were showing into this space.

And during the next month, they will start selling and integrating our offerings into their solution for customers that will enable us to grow into these new categories.

Let me cover now the last growth strategy, what are we doing in the graphic space? Graphic is all about accelerating the transformation from analog into digital. It's about continue making printing with digital technologies cheaper, increasing the speed, and improving the variety of media that we can support.
So we can expand our solutions into packaging, and into many other industries that over time will be transformed into digital.

But it’s also about working with the key brands of the world, showing them the value of digital printing, showing them how by personalizing their labels, their packaging, they can communicate with their consumers in a different way.

A year ago, I talk about the campaign that Coke had done with us, The Share a Coke campaign what you could personalize the cans of Coke all over the world. Many other companies saw the success of that campaign and they have copied that. Now, most of the beer companies, for example, are running similar campaigns by taking the advantage that personalization has, and growing their businesses through personalization.

Our printers in the graphic space are sold to print service providers. And our printers in many cases become the factory that these companies will be running. Making those factories efficient is also one of our key properties, helping them to reinvent these day operations. One of the key announcements that we made at drupa was PrintOS, which is a new operating system that enables print service providers to manage their full fleet of printers in a more effective way both for HP and non-HP technologies, of course, delivering more value for HP products. But owning that control point is critical for us and will be a key differentiator for HP in the future as we grow into the graphics world.

So far I have covered our strategies for the core and our strategies for the growth segments. And there has been several consistent teams has been about identifying the focus of growth, segmenting the market and bringing innovative solutions to the different spaces. But we know this is not enough. In order to compete and to continue winning in this space, we need to continue improving our cost structure and the efficiency of our operations. And we have identified three key areas that we have in our focus and continue driving change in the future.

First, we’re going to dramatically simplify our portfolio and the platforms that support our portfolio. We will maintain the same coverage that we have today but we will do that with less platforms that will enable us to reduce both development cost but also supply chain cost of the products. We’re going to simplify our operations and, for example, in the manufacturing space, we’re reviewing our global manufacturing footprint and reducing the number of factories both for hardware and for consumables with the goal, of course, of reducing cost.

And we are redefining our go-to-market model, simplifying the cost or reducing the cost to maintain – to drive our traditional businesses so we can reinvest those to grow into the services space, to expand into the services space where we see growth both in the copier world and in the graphics space. And this continued focus on our operational efficiency and savings is as important for us as the innovations that we will be bringing into the different segments.

Let me bring now the overall strategy to close. And I want to close in the same way I started. We are focused and determined to bring this business back to growth, but we know that is not something that will happen in one quarter. This is an activity that requires several years of work across multiple segments delivering innovative solutions continue to reduce cost. And this is what we are going to be doing in HP.

The roadmap that we have built is what we are showing. 2016 has been the year where we have setup the business for long-term success, improving operational excellence while at the same time defining our long-term plan. Our goal in 2017 is to drive the stabilization of supplies by the end of the year. And in 2018 and beyond, we will be returning the business back to growth. And this is what we call reinventing print.
To close now, let me share a very symbolic video. I talk about the value that we can have. I talked I believe that we have in HP about the power of print. So let me share with all of you the value that print has in a very special environment – in a very different environment. So let’s roll the video.


So, we can say now that printing, that’s a mother. And with that, let me introduce Steve Nigro that we'll be sharing with you of the great progress we’re going to be doing to transform the manufacturing industry. Steve?

[Music] (01:56:45-01:56:58)

Stephen Nigro

Thanks, Enrique. Fantastic job last year on that A3 strategy, and I’m looking forward to it. So, in 3D printing, it's all about supplies, all right, all right. Okay. And 3D printing is about changing how the world designs and manufacture or leading the next industrial revolution. In the last 12 months, the 3D industry has seen significant changes, but the HP approach has remained constant.

So, let me summarize. The 3D market is a rapidly growing market. It is estimated that the market will grow at a 30% CAGR over the next five years. We are innovating with Multi Jet Fusion, a new disruptive voxel-level 3D printing technology. Now voxel is a 3-dimensional pixel that leverages our world-class inkjet expertise.

In May of this year, we launched our first products. We also launched our end-to-end solutions, and we developed a new go-to-market design. We had great receptions from our future customers as well as the industry experts.

We also announced a new open material business model that really shook up the industry. We are creating a 3D platform that will allow the world to innovate with HP. And everything we do is driven by our North Star that leads that next industrial revolution or go after that $12 trillion manufacturing industry. Now having a compelling advantage technology in a rapidly growing market with a combination that is hard to find, and I love the hand that we have.

Okay. We’re talking about leading the next industrial revolution. So let’s quickly look at the impact of some of the past industrial revolutions. And what you see is with each industrial revolutions result in a significant change in the global economy.

So, the first involved water and steams back in the late 1700s. And the textile industry went from a cottage industry into factories that allowed Britain to become the leader in manufacturing in the world. By the way, cottage industries came from that first industrial revolution.

The second industrial revolution was about electricity and division of labor. And it created assembly lines and mass production. It allowed the United States to become the leader in manufacturing. Most recently, the third industrial revolution, which was about electronics and IT, allowed mass production to go on a global scale. And the combination of low labor cost and IT was a major enabler of China becoming the leader in manufacturing.

We are now on the cusp of the fourth industrial revolution, I’d like to say, digitization or digital manufacturing. Ones and zeroes will control everything. Factories will become hyper-efficient through extreme flexibility, and you'll see the ability to create completely new products. And 3D printing will be at the core of the fourth industrial revolution. And with that fourth industrial revolution, once again, we’ll change the global economy. And we’ll see a democratization of manufacturing. Okay, fantastic, future. Let’s ground ourselves in the state of the market.
Like I said, 3D printing is growing at a 30% CAGR and it will be an $18 billion industry by 2021. In 2021, plastics will continue to be the largest portion of the industry at $10.4 billion. Now, if you look at our roadmap of Multi Jet Fusion, we project we'll be able to address over 75% of that 3D plastic market.

That $18 billion in 2021, 3D is still a small portion of the $12 trillion industry. So, why is that? Well, 3D printing today is too slow and lacks consistent high-quality. It's too expensive to get into production outside of some special high value use cases or extreme low volume. So the industry needs greater innovation to change the balance of what's possible. And that's exactly what we're doing with Multi Jet Fusion. Let's look at how the technology works.

[Video Presentation] (02:02:00-02:03:36)

Okay. Voxel is becoming clearer. Now, Multi Jet Fusion, as I said, leverages 30 years of our world-class inkjet capabilities. It leverages key inkjet assets, specifically our PageWide portfolio. It leverages our deep expertise in materials and chemistry. It leverages our advanced system integration capabilities, we call writing of fusion systems, and so much is the IP intellectual properties wrapped around the system. And speaking of IP, we now have over 400 3D patent applications that sit on top of our greater than 5,000 core inkjet patents. And we also are leveraging our mission-critical service and support capability, which comes from our graphics business.

Now when we look at Multi Jet Fusion, we see there are four sustainable advantages versus the other 3D printing technologies. First, Multi Jet Fusion is the most productive 3D printing technology. Now, we define productivity as parts per day, parts per month. Second, Multi Jet Fusion is scalable. Just like our 2D printing business can go from a desktop up to an $8 million Web Press, 3D will be no different. In the future, you'll see us being able to create wide print bars that will allow us to produce large products or even drive more productivity. Third, the combination of our leverage, productivity, scalability and will give us advantage economics. And when you get into production, it's going to be about economics.

And finally, four, we are a voxel 3D printing technology, and this is actually unique in the industry. This ability to print at the voxel level and create functional mechanically robust parts at high speed, we'll create new design possibilities in the future. Okay, that's a really cool technology, but what about the product got-to-market and business model? So, I said in May of this year, 2016, we announced two commercial grade 3D printers starting at $130,000, the HP Jet Fusion 3200 and the HP Jet Fusion 4200. And we delivered on our promise of speeds up to 10 times faster, high-quality parts, lower cost per parts, which is going to be a really big deal, and our open material platform, our disruptive business model.

Okay. So let me explain that open material strategy. If you're going to get into production, you need to be able to produce hundreds, probably thousands of materials. And there's really no way an OEM can develop all those materials themselves. So we decided we're going to leverage the world, we're going to create a 3D platform. And so we announced, with our four main material partners, that they will be developing materials that will complement the HP materials. So here is how it's going to work.

Partners – material partners, they will identify and develop new materials based on their capabilities and market knowledge. HP will certify the material for safety and reliability reasons. The customer now will go to the HP material app store, and they'll be able to buy HP branded materials, or they will be able to buy partner-branded materials. Our business model and app store business model, all materials that go through our app stores, we get a percent of the revenue. And since our announcement, we've had over 30 material companies come to us and ask they get on our platform, the power of the HP platform.

The other big news was our vertical transformation partners we announced, BMW, Jabil, Johnson & Johnson, and Nike. Now, certainly they use 3D printing today for prototyping. But what they are talking to us about is, how do they use 3D to transform their business? How do they transform their production with 3D? And why they’re talking to us? Because Multi Jet Fusion is combination of speed, quality and
cost. And the other thing is, these partners really represent some of the key verticals. As I said, we also announced an end-to-end solution with new standards and new workflow to support our customers.

So let me talk about how the 3D business will develop inside of HP. Well, 2017, it’s about establishing the business. We got to get this new business going. 2018, you’ll see us expand the product portfolio, you’ll see us expand the go-to-market. And that will allow us to go into more segments and touch more customers.

In 2020 plus, we see 3D going mainstream into production and new designs taking advantage of 3D voxel printing. Okay. I talk about production. What does it take to get into production? There’s multiple factors. One of course is product capabilities, the need to continue and improve productivity and get consistent high quality; material prices, the ability to need to drive down [indiscernible] (02:09:13) costs; material selection, getting those hundreds of thousands of materials; designing for additive, creating new tools that take advantage of 3D; new supply chains to take advantage of the flexibility you get with 3D; standards and regulations, 3D standards will certainly be needed to be created in certain industries. But of all those I just mentioned, without a doubt, the most important in my mind is economics.

So let me share an example. So this is an application we’re actually studying and characterizing with one of our partners. So let me explain this chart you’re looking at. This chart shows the relationship between 3D part cost and the number of parts it makes economic sense to produce, and that’s that blue line. The orange line is a number of Jet Fusion machines needed at a given volume. So what you see is, today with the 3D part cost, you do production quantities of a 100. It’s really special production because of the cost limitations.

As a 3D printed part cost drops, you’ll see a dramatic increase the number of parts it makes sense to economically produce. Or to say it differently, part cost drops, you go for hundreds to thousands of millions, to tens of millions of parts that you produce, the number of machines go from ten, to hundreds of thousands.

So how do you drive these economics, how are you going to get this future? So let me go to one of my favorite examples. I’m going to start with this gear, this is 3D printed gear. We have this notion called breakeven point, comes from our graphics business, and breakeven is a number of digital parts that can be produced at a lower cost than using analog. So with this gear, you’re going to produce this gear, you have a choice, print it or mold it. Now, with the HP Jet Fusion machine we just announced, if you’re going to make 55,000 or fewer of these gears, your action has saved money printing it. That’s based on raw economics, nothing about inventory, savings, et cetera.

Now, our breakeven model is quite a complex model, but I can tell you it’s dominated by material costs. And in fact on today’s HP Jet Fusion machine, the material costs in the machine is about five times more expensive than the equivalent material that’s for an injection molding. Now, 3D powders take a bit more processing to make, but at volume the cost should only be slightly higher than that same material for injection molding. So now, let’s go into the future. Let’s change a couple of key assumptions. First, let’s assume that 3D plastic is now at 50% premium versus injection molding, a very conservative assumption. Let’s assume we take the productivity of our first product and improve it by 4x, something that we will do. When you make those few changes in the model, you go from a breakeven of 55,000 to a 1 million gears.

So what that says, I’m going to make a 1 million or a few of these gears, I’ll print them. So that means most of the gears in the future, when you get to that state, should be printed. As you can imagine, that’s certainly going to drive a large number of 3D machines, but when you reach that future state, that’s when 3D really starts penetrating the $12 trillion manufacturing industry. Okay. It’s already happening today. So let me talk about today. When we were creating our machines, we said we wanted – we had a goal, we wanted to 3D print some parts using Multi Jet Fusion. We thought that would be a really great statement. But we had a requirement. We said it had to make economic sense.
So we thought, we would get a handful of small parts that we would end up printing. As we got close to releasing our product, and we did the analysis we were surprised. Almost 50% of the custom plastic parts on that machine actually make sense to print, just stays on economics. So yes, we have the printer that is printing itself. Now, let’s go into the future. Let’s go to that 3D – we’ll go back 3D materials, 50% premium, go to a 4x productivity. And what you see once you get that done, a large number and a large parts now makes sense to 3D print, all on a basis of economics. In fact, 95% in that future scenario of the custom plastics parts would make sense to 3D printing.

So today, with Multi Jet Fusion already inside of HP and other industries, you’re going to see production using our technology, and that’s why our transformational partners are so excited about working with HP. Okay. I’ll go back, it’s in the market, 2021, $18 billion industry, tiny relative to production. How do we get into this virtual cycle? Well, you can imagine more materials, lower costs, improving the product capabilities, designing for additives, it’s very plausible that in 2021 this market could be twice the size, but what I can tell you, it’s not if this is going to happen, it’s when it’s going to happen.

Okay. I’ve been talking a lot about economics. I need to geek out with you guys just a little bit. So I mentioned Multi Jet Fusion is a voxel-level 3D printing technology, unique to HP, there’s combination of voxel printing functional robust high-speed. When you design and print at the voxel-level, it creates completely new design possibilities. We have lots of examples, but I will encourage you to go to the voxel lab afterwards, and you actually can see examples of parts printed at the voxel-level. But I want to share one of my favorite examples.

What we have done is we’re actually able to print circuits, with our agents actually print circuits as we build a 3D part. So you can imagine a future. I have to get my knee replaced, get a knee replacement, has embedded circuits. You go to your physical therapist, they can just go monitor and the performance of that new knee. And we think about this as the Internet-of-Things at the component level, and when we think about this future, it’s exciting to imagine.

[Video Presentation] (02:16:04-02:17:44).

All right. That’s an awesome future. So HP is in a great place on 3D. It’s a rapidly growing market that will be a large market in the future. We have compelling products and solutions based on a disruptive technology, and we have just started. We’re creating a platform that’s going to allow the world to innovate with HP. And everything we do is driven by our North Star, the change how the world designs and manufacture or lead the next industrial revolution. Thank you.

Okay. All right. So now, we have 15 minutes of break, and then you can come back and hear the star of the show, Cathie.

**Diana Sroka**

If I could ask everyone to please take their seats that would be great. Hopefully you got a quick break and some refreshments. And while Cathie is just about to come up. I just want to remind you that after we finish Q&A, if you want to see kind of the products we’ve been talking about the technology, the actual 3D printer, the voxel lab, many Personal Systems products, just head out the door and to the left, and we’ll guide you there and have a little reception after. So without any further delay, I promise I’m so pleased to introduce our Chief Financial Officer, Cathie Lesjak.
Again, the HP crowd is very energizing, the rest of you not as much. Anyway yeah, good afternoon, everyone. This has been an incredible year. When we look back at the Security Analyst Meeting last year, we had no idea the kind of headwinds that we were going to face as we got through fiscal 2016, but I couldn't be prouder of how this team has responded. We took quick action to realign our cost structure and drive cash conversion cycle improvements so that we could meet our commitments to you across all of our dimensions at exactly the same time that we continue to invest in our strategy for long-term success, and I continue to be very excited about HP and about our future.

We are the global leader in all of our major markets. We're taking advantage of the growth opportunities and you heard about many of them already today, and we're generating strong operating profits and good free cash flow. And I believe, we're making the right investment decisions to ensure long-term shareholder value. And when I look back at the first year as HP, Inc., I can confidently say that the separation was exactly the right thing to do. The focus of the board, the executive leadership, and frankly all of the employees is having a material positive impact on printing and personal systems. The focus and a lot of hard work has contributed to being on track or better to deliver the FY 2016 financial commitments that we made to you at last year's Security Analyst Meeting.

First, as we said we would, we are achieving significantly more than a $1 billion in productivity improvements to offset currency and market sizing headwinds. And we've done this by optimizing variable costs, looking at every line of the bill and the materials, and every element of our supply chain, by streamlining operations through reduction and design and manufacturing complexity, by improving product quality and hence reducing our warranty expense, and significantly reducing non-revenue generating heads and costs. Next, we are delivering diluted net earnings per share within the original range we provided.

As noted during our Q3 earnings call, we have narrowed our range, and that we're now for fiscal 2016 non-GAAP dilutive net earnings per share in the range of $1.59 to $1.62. And, we narrowed that range because obviously of where we were in the year, but also because we saw a real potential to place more NPV positive printer units, given all of the hard work that we've done on our cost structure. We are also generating strong free cash flow. We generated over $2.2 billion in free cash flow through the first nine months of fiscal 2016. We also expect to exit Q4 with a several day improvement year-over-year in our cash conversion cycle, better than what we had expected when we laid out our plan last year, and it's a few days increase from the negative 29 days reported in Q3.

And finally, returning capital to shareholders. We have returned about 80% of our free cash flow through Q3 of 2016. And this is all the [ph] while (02:23:29) remaining focused on innovation. We have maintained R&D of roughly $300 million per quarter, supporting the innovation in each of our businesses that Ron, Enrique, and Steve have talked about today. So now, let's take it up a level and look at an overview of the entire business. We're a global industry leaders in personal systems and print, delivering about $48 billion in revenue over the last four reported quarters. In Personal Systems, we've extended our commercial leadership to almost 25% of the world market, utilizing innovative products like Spectre X360 and Elite X2, while defining categories like commercial mobility with the Elite X3.

In Printing, as Enrique said, we are the global leader or number one or number two in 42 of the top 45 countries that HP plays in ink and laser. We continue to have a very diverse global footprint with 47% of our revenue in Americas, 33% in EMEA, and 20% in APJ. And by leveraging approximately 250,000 channel partners globally, we have extensive reach and go-to-market synergies that allow us to sell our products and our services in over 170 countries. In addition, our operational leadership and execution based on hundreds of years of relevant business experience informs and guides our decisions to drive revenue and operating profit dollars both short-term and long-term.
The three business principles that we utilize to drive our market leadership are; first, knowing where to sell. As you’ve heard us say, it’s about segmenting the markets, then segmenting it again in order to find where the heat in the market is. Second, continuing to innovate, driving HP’s relevancy in new categories, products and business models. And finally, managing costs. We know that in order to succeed in this very competitive environment, we need to be focused on costs day in and day out, always looking for ways to operate more efficiently and effectively. Now, let’s take a look at capital structure. As we introduced at our last Security Analyst Meeting, our strong balance sheet is supported by the financial profile of our business.

Three of the key elements of our businesses are; first, we generate strong profits and recurring cash flows from an annuity revenue streams from supplies. Second, a negative cash conversion cycle. Personal Systems has generated strong positive cash flow, especially with revenue growth. And third, our business is not capital-intensive. The vast majority of our capital expenditures are to support the manufacturing of print hardware and the associated supplies. The Q3 balance sheet shows a total of approximately $1.1 billion of net debt, and when you compare that to the Q1 balance sheet, cash has increased by approximately $2 billion due primarily to operating activities. And note, that the compare to Q1 is because the Q1 is the first balance sheet that doesn't have discontinued ops.

HP has an investment grade credit rating, we're in constantly evolving marketing places, and we need the capacity to make the right investments at the right time. In addition, given that growing shift from transactional to contractual, we believe that an investment grade credit rating is important to our customers. HP has an efficient capital structure that appropriately sets the company up for long-term success, providing the flexibility to take full advantage of the financial markets and opportunities when they arise. Let’s take a look at capital allocation. Our approach to capital allocation hasn't changed, and is anchored in a returns-based framework where we allocate excess cash to optimal return opportunities.

First, we develop short-term and long-term business and operational plans that align with the financial objectives that we set. Our investments are likely to be largely organic, whether that's to place NPV positive printer units, or to support innovation required to remain leaders in the markets in which we play. Organic investments alone are not likely to always be sufficient to realize our full potential, and therefore we do expect acquisitions to continue to play a role in our future. As you've heard me say before, in an environment of rapid technological and economic change, we need to be able to invest capital in the right place at the right time, and believe that that investment grade credit rating is important to enable this.

We deploy excess capital to achieve the best risk-adjusted return on investment. And as we've demonstrated this past year, we are committed to a robust dividend and share repurchase plan to drive incremental shareholder value. Acquisition activity will likely be focused on technologies that are complementary to our portfolio, and in our targeted areas of growth. The acquisition of Samsung’s Printer business is a perfect example of this approach. We are acquiring key technology and IP to accelerate our disruption in the A3 business printing market, which remains a key growth opportunity for us as you've heard Enrique talk about.

By definition, our risk-adjusted returns based framework means that we evaluate all of the opportunities against one another to make sure that we are aligned in our decision-making to maximize shareholder value both in the short-term and the long-term. We will maintain the same disciplined approach we've demonstrated at HP in the last year as we move forward. Turning now to our FY 2017 capital allocation priorities. We expect to return cash to shareholders in the form of dividends and share buybacks in FY 2017. The board approved a 7% increase in the quarterly dividend amount effective next year, which will drive approximately $900 million in dividends in fiscal 2017. The growth in the fiscal 2017 dividends is greater than the expected fiscal year’s net earnings growth.

Given the progress we've made in improving our businesses, we are confident that our cash flow is robust and sustainable. We will also have a share repurchase plan buying back shares to at least offset
dilution. The board approves an increase in our existing share repurchase authorization of $3 billion. You can expect the total return to shareholders to be in the range of 50% to 75% of our annual free cash flow. Given our current view into FY 2017, we expect to be at the higher-end of that range. Now, let me frame our strategy and key assumptions for the fiscal 2017 financial outlook. Our strategy will be to continue to protect the core, while accelerating investments in key growth areas such as A3, graphics, commercial mobility and services, and investing in the future such as 3D printing. We expect the worldwide markets to remain competitive, and at times, volatile.

Our Print business assumptions specifically include, our market forecasted to decline slightly year-over-year, primarily driven by the consumer segment, that we will continue to place NPV positive units throughout the entire Printing business, and supplies revenue will stabilize in constant currency by the end of 2017, driven by both positive NPV unit placements, as well as an increase in supplies aftermarket share. We expect a spring launch of our new Laser A3 products in partnership with Samsung. And we’ve assumed the closing of the acquisition of Samsung’s Printer business to be at the end of fiscal 2017, and as such, we have assumed no financial impact other than some integration expenses, which I will speak to in a few minutes.

For Personal Systems, we expect that the year-over-year PC market decline is forecasted to slightly improve due to growth in detachable, offset by declines in traditional PCs, and we will continue to be focused on profitable share gains. Commercial remains an integral part of our Personal Systems strategy, and commercial ASPs are expected to be pressured in FY 2017 due to competition as well as product mix shifts. Finally, for both businesses, the Brexit assumptions we used contemplate the currencies and the demand environment as of September 30, when we locked down our plan. If the macro environment deteriorates significantly, that could have a material impact on revenue and profit, especially in supplies, given its tight correlation to gross domestic product growth.

We will continue to monitor the Brexit situation, and its impact on us, and we’ll provide updates as the year progresses. Also, given the continued headwinds due to competition, foreign currency and market sizing, we are driving another set of productivity improvements in fiscal 2017 across Print and Personal Systems. With all that as a framework, our FY 2017 outlook for GAAP diluted net earnings per share from continuing operations is in the range of $1.47 to $1.57. And fiscal 2017 non-GAAP diluted net earnings per share is expected to be in the range of $1.55 to $1.65. Some of the key assumptions include that the year-over-year decline in revenue slightly improves with continued focus on gaining profitable share.

The currency impact to revenue will be immaterial year-over-year, given the end of September FX rates assumed in our outlook. And remember, that 63% of our total revenue is earned outside the United States. So while the diversity in the revenue streams benefit us over time, we will have to continue to manage the impacts from currency relative to the U.S. dollar in the short-term. Our outstanding share count will be about 1.7 billion shares as we enter FY 2017, and we expect a slight decline given our capital allocation priorities in FY 2017.

The separation and its focus has really created the opportunity over time to reengineer many of our processes and to streamline our operations further, as well as improve our IT environment. As a result, over the next three years, we expect GAAP-only charges of approximately $350 million to $500 million in restructuring and other charges, both due to labor as well as non-labor actions that we’re going to take. These are expected to generate gross annual run rate savings of $200 million to $300 million beginning in fiscal 2020. We expect a range of 3,000 to 4,000 people to exit the company between FY 2017 and FY 2019. The range is related to the outcome of several outsourcing decisions where we’re currently finalizing those decisions. The non-labor activities include IT-related charges, facility exits and modifications.

In FY 2017, we expect GAAP-only expenses related to restructuring activities and other charges totaling approximately $200 million to $300 million, and that roughly 1,500 to 2,500 people will exit the company.
in fiscal 2017. We have assumed the midpoint of our outlook for FY 2017 GAAP diluted net earnings per share from continuing operations. Also included are approximately $20 million of expenses related to the beginning of the integration of acquiring Samsung’s Printer business, and partially offsetting these are non-operating retirement related credits of approximately $140 million. Before we talk about cash flow and the long-term profile of the business, let’s take a look at the year-over-year non-GAAP EPS bridge. The current FY 2016 non-GAAP EPS outlook is a range of $1.59 to $1.62, and I’m going to bridge from that midpoint of the range. First, based on current FX rate, we expect about $0.05 headwind from currency year-over-year. The next two items relate to our divestitures this year. In FY 2017, we will not have the gains from the software divestitures, nor the operational profit from those businesses, but we also won’t have the profit headwind from the actions that we took to materially take down our supplies channel inventory in fiscal 2016. As we mentioned, we also expect to make incremental investments to support our growth initiatives. This equates to about $0.05 and supports increased spend across 3D, A3, Instant Ink, solutions and services and supplies.

The next bridge item is a range of negative $0.26 to negative $0.31, and this is associated with our view of market sizing, product mix, and pricing in what remains a very competitive market environment in fiscal 2017. To offset currency, product mix, market headwinds, we are planning to execute another roughly $1 billion of productivity improvements. As we have stated, managing costs is a job that is never done, and included here is the full year benefit of the productivity initiatives that we undertook in fiscal 2016, but we did it throughout the year, so we get a full year benefit next year. The new restructuring actions that I just spoke about, which includes both labor and non-labor savings, and additional productivity improvements in fiscal 2017 beyond restructuring activities, such as operational process efficiencies and product cost savings from product and design simplification.

With share buybacks offset by the benefit from the legal settlement accounted for in OI&E in Q2 2016, our FY 2017 non-GAAP diluted net earnings per share outlook is in the range of $1.55 to $1.65. I’ll now move on to cash flow to help you understand that outlook and what’s changing year-over-year. We assume that the cash conversion cycle to be approximately negative 25 days as we exit FY 2016, which is at a favorable level versus what we saw last year at negative 19 days. We made significant progress on putting permanent processes in place to manage the working capital metrics, and we expect to maintain a cash conversion cycle of approximately negative 25 days in fiscal 2017. Capital expenditures are expected to be roughly $500 million or flat year-over-year. Those capital expenditures in FY 2017 are roughly spilt between growth and maintenance initiatives.

Cash flow from operations for FY 2017 is expected to be in the range of $2.8 billion to $3.1 billion, and free cash flow outlook is in the range of $2.3 billion to $2.6 billion. I’ve also chosen to add some select other operating cash flow details that are non-recurring items. Now, let’s walk through the free cash flow bridge on a year-over-year basis so you can see more clearly what’s happening. Starting at the midpoint of our current outlook range. There are two items that impacted fiscal 2016 free cash flow that are not recurring; first, we had separation related cash outflows in FY 2016 of just over $200 million, and those don’t repeat in FY 2017; and second, in fiscal 2016, we used the divestiture gains that are not included in the free cash flow calculation to fund the supplies go-to-market changes of $300 million.

Restructuring payments were about $300 million in fiscal 2016, and we expect our new program will have a cash impact of about $200 million in FY 2017. So net year-over-year is also a tailwind of roughly a $100 million at the midpoint. The largest headwind to free cash flow is working capital. During FY 2016, we made better than expected progress on optimizing working capital, improving the cash conversion cycle by an estimated six days year-over-year. At this time, we don’t expect another year-over-year improvement in the cash conversion cycle. That being said, we will definitely look for opportunities throughout the year. And if we are able to find incremental ways to optimize our working capital, we will do so. Finally, we expect changes primarily in other assets and liabilities to be a tailwind of $500 million
in FY 2017. With all that in mind, the FY 2017 free cash flow outlook is in the range of $2.3 billion to $2.6 billion.

I now want to spend a few minutes on how we think about the long-term financial model of our business. At its core, HP is a long-term cash flow business. Personal Systems is largely transactional in nature, and we operate with a significant negative cash conversion cycle. So coupled with low capital requirements, that business yields very attractive return on invested capital. However, Printing has a very different dynamic given the annuity nature of high margin supplies, and the low to negative margins on placing hardware units. And I’m sure many of you will recognize this area under the curve slide, it remains a very relevant concept for the Print business. Even in mature businesses, investments matter, and we are continuously faced with alternatives that will yield very different results or areas under the curve. While this is just a theoretical model, it is how we think about our choices. Let’s start with the yellow line, which is a scenario that assumes optimization of short-term profits and cash flow. This is representative of an accelerating supplies decline over time, which can be the result if we sub-optimize the placement of hardware units or cut back on key investments in the future in order to achieve short-term profitability. The orange line is a second scenario that demonstrates investments are needed today in order to drive the long-term sustainability of the Print business. Investments in placing high-value hardware with strong supplies attached, or driving high supplies consumption businesses like NPS and graphics, expanding into adjacent markets like A3 copiers, and innovating our products and delivery models, all ultimately drive the right short-term hardware sales, and we expect will result in long-term profitable revenue streams from supplies to maximize cash flows over time, or to maximize the area under the curve.

And you can see that these choice points yield very different cash flow trajectories over time or areas under the curve. This model is core to how we think about the Print business, and how we will drive long-term shareholder value. We need to find the right balance, considering current and expected future market conditions, competitive environments, investment opportunities and many other factors, and we believe we’ve done exactly that, a balanced view for in our fiscal 2017 outlook. Now, let’s turn to our long-term financial model. As noted throughout the afternoon, we are leaders in sizable mature markets. You’ve seen us operate well in tough markets, focusing and executing on our strategy, while delivering on our commitments. With strong innovation at our core, as well as category creation, we expect to continue to be market leaders, outperforming our competitors and gaining profitable share where we choose to play.

Combined with an intense focus on operational efficiency and execution, we expect our long-term operating margin to be in the range of 8% to 10%. When we see opportunities to invest, to place incremental NPV positive units, our short-term results maybe at the lower end of the range. Our long-term goal will be to consistently grow our operating profit dollars over time. The cash flow trajectory should closely track earnings. And our long-term objective is to return 50% to 75% of annual free cash flow to shareholders, with dividend growth in line with earnings, and the balance with share repurchases.

As I wrap up, let me focus on four key messages; first, the combination of our recurring revenue streams, negative cash conversion cycle, and efficient operating model, drives strong operating margins and cash flows; second, our leadership position offers us growth opportunities that we intend to continue to take advantage of; third, we will continue to make prudent investment decisions to ensure long-term shareholder value, or to maximize the area under the curve; and finally, our team is highly experienced in our business, and we have shown you this year and we will continue to show you that we know how to deliver.

Thank you for your time. Now, please if you could give us just a couple minutes to set up the stage, so we can allow participants to come on stage and we can do Q&A.
Q&A

<A - Diana Sroka>: Okay. Q&A time. So we have about 30 minutes for Q&A. And I'm going to ask this, and I hope you respect this one question per person, and we're going to move on so we can get to everybody. Okay. I see Maynard has a mic.

<Q - Maynard J. Um>: Can you just give us a framework about how you think about things long-term financially? And I'm curious, because you talk about the 8% to 10% long-term target at the same time. So you'll be at the lower-end when you find opportunities to place positive NPV printers. But if you think about the model longer-term, do you sort of think about it as a business where you'll continually continue to place those printers, and so you get that annuity stream, but you don't never really get the upside to the earnings number. I'm not sure if I'm being clear, but did you sort of understand the basic, the basis of the question?

<A - Catherine A. Lesjak>: So I'll start, and then anyone, maybe Enrique and Dion could add. So when we think about kind of the long-term trends, first we're going to get to supply stabilization in constant currency by the end of 2017, and you don't just get there and then breathe a sigh of relief and you're done, you actually continue to focus on growing the supply stream. So that will help from a profitability perspective pretty significantly. And then if you actually look within the growth segment of our strategy, you talk about the A3 business, you talk about graphics business, commercial mobility, Ron talked about many of the shifts in the portfolio where we are underrepresented today, our shifts to more higher profitability type business. And then over the really long-term, we get growth from 3D Printing.

<A - Dion J. Weisler>: The other thing I would add and then I'll let Enrique chime in, is that you have to remember the time in which a unit stays and remains active. For a consumer unit on average, it's about three years, and for a commercial unit, it's about seven years. So the work that we do today in the consumer space pays dividends over the next three years, and the commercial space pays dividends for the next seven years. So decisions that we made six years or seven years ago are actually impacting our business today, is one of the reasons why our supplies business is not in growth. So it's important to remember that as we are placing those units, it does have an impact in the current quarter, the current year in which we place them, but that pays dividends for the longer term.

<A - Enrique Lores>: And I think, the viability that Cathie was mentioning is directly connected to the model I explained about how we place units. And the fact that every quarter we optimize the mix based on the market reality that we see across multiple countries, across multiple regions. And this enables us to place more units or are not place more units depending on the attractiveness of these investments.

<A - Diana Sroka>: Okay. Then Katy.

<Q - Kathryn Lynn Huberty>: Thanks. Katy Huberty, Morgan Stanley. Given you're essentially asking investors to wait at least another year for any inflection in the business, low capital intensity, no obvious holes in the business that you need to fill, why not return significantly more than the 50% to 75% of free cash flow to shareholders?

<A - Catherine A. Lesjak>: So again, one of the things that I tried to make clear that the investment grade credit rating is pretty important to us, and we do have challenges because a lot of the cash that we generate is actually offshore, and yet we pay dividends and buy back shares on onshore. And so that certainly put some constraints on us. And then on top of that we really want to have the flexibility to take advantage of investments when they arrive, and that means leaving a little bit of room for us to have that opportunity.

<A - Dion J. Weisler>: Katy, it's also why we've been so clear about articulating our strategy, and our strategy really straddles both here and now in the core, and how we expect to drive opportunities for
growth into the future. And we want to ensure that we have the flexibility to execute that strategy end-to-end. It is a very balanced strategy as we think about it. So as the board contemplated the dividends, and making a 7% increase there, I want to show the kind of confidence that we had in our cash flow. We wanted to demonstrate through the course of the actions that we took this year that we are not only executing in the here now today, but we are setting ourselves up for long-term growth and our shareholders up for long-term growth into the future.

<A - Diana Sroka>: Steve, is that you over there?

<A - Enrique Lores>: No, it’s Jim.

<Q - Jim Suva>: Thank you. It’s Jim Suva.

<A - Diana Sroka>: Jim, I’m sorry.

<A - Dion J. Weisler>: It’s the lights, Jim.

<A - Catherine A. Lesjak>: It is. Jim, my apologies.

<Q - Jim Suva>: No problem. Jim Suva from Citigroup. Probably a question for Dion. Before we came into this big room, we got to tour your product demos, and believe me there is no doubt of the innovation you’ve done on both the laptop, the notebook, the tablet and all that side. However, we look at your market share data for the past several years, North America has remained relatively flat. Globally you’ve gained a lot of share, but North America relatively flat. It seems like all your share gains have come from other regions. Do you think that that’s more a function of the economy in those areas, or because of your innovation, and maybe the innovation is still yet to come, because as we look around this room, there is not a lot of HP users on their tablets, unless they are an HP employee, unfortunately. So a lot of innovation we’ve seen, but the market share doesn’t appear to be coming from some of the core mature markets.

<A - Dion J. Weisler>: Well. I’ll start and then I’ll let Ron chime in. But if you look at our performance in the United States, I think, the team is actually executing pretty well, have had several record quarters this year alone. When you look at the preliminary data from both Gartner and IDC that was released a couple of days ago, we’ve seen yet another record share quarter for the U.S. team. I think we’ve been very selective. Again we’re playing our game here. We’re choosing which share we want, and which share does not make sense for us. So profitable share is something that I’ve been talking about for at least the last four years. I articulated it many years ago as the world was in tablet frenzy, that we were not going to get involved in the race to the bottom of an $80 tablet. That would be somewhat of a pyrrhic victory.

So some of the things that impact the ebbs and flows of the business in the U.S. is largely driven by consumer. And depending on where competitors are, what kind of stock situation they have, sometimes they do, let’s say, rational things in order to win slots in U.S. retail. We don’t do that. We’re being very careful about where we’re selecting to play, and where we’re selecting not to play. I think Ron, Christoph and the team are being highly disciplined here. Ron articulated a strategy to go after a much more profitable part of the market, the premium market, the gaming market. We’re making real headwinds here, and we think that’s great for the long-term health of this business.

<A - Ronald Coughlin>: Yeah. I would just build on that. We’re at an all-time high share in the United States according to the most recent last two quarters, all-time high share. And if you look globally, we’re all-time high share, and actually the bigger share gains are coming from our developed markets versus developing. The second thing is the story within the story. At the same time, we’ve taken number one position on premium within Windows, and we’re taking share from Apple. So we have a positive mix shift within that in addition to creating a gaming business. So I think the U.S. team has been executing very well actually.
<A - Diana Sroka>: Shannon.

<Q - Shannon S. Cross>: Thanks. Shannon Cross, Cross Research. Looking at the charts and commentary and the presentations, everything seems to get better in fiscal 2018. And there's been a lot of talk about various drivers and different areas to focus on. But I'm curious from your standpoint Dion, and if anybody else wants to jump in. What are sort of the key things we need to watch, because clearly, you've got a lot of moving parts in there. So what are the areas that you're most focused on to get to? I think it looks like you're saying growth in fiscal 2018 based upon the composition of the charts, if that's not true [ph] let me know (02:57:10).

<A - Dion J. Weisler>: Well, of course, we don't guide revenue, but indeed, we're trying to give you a depiction of how we see the business. What we are doing is really executing on a single [ph] page strategy across core growth in future. And I think you really need to break each of those segments down in order to understand how we're executing. In Personal Systems, we're seen that business continuing to improve quarter-after-quarter as the markets get a little better. We're taking profitable share faster than the market, outpacing our competitors, in many cases both year-over-year and quarter-over-quarter.

We're going to continue to focus on the core, add those sprinkles of magic that Ron talked about, all the while building some of these new growth segments that we expect to become more material in the future, the commercial mobility space is a great example of that. In Printing, ad nauseum we've talked about the need to take out the cost of our business. We talked about that on our Q4 earnings call last year, then again on the Q1 earnings call we articulated what we were doing there. And as a result of that, you've seen the trajectory of the Print unit placement we've been able to drive negative 20% in quarter one, negative 16% in quarter two, negative 10% last quarter, and I would expect that kind of trend to continue in the future as well.

So that is how we're operating the core, it's about segmenting the market, segmenting again, and by the way, once you've done it twice, do it another two times or three times, because the devil really is in the detail there. And then it's about executing in that growth area, those three growth areas that we talk about; the A3 space, significant announcements in the last month both from our product perspective as well as in very strategic acquisition that we made; commercial mobility, the team really hunting with the products and services that release there and of course, our graphics business. But we characterize that very deliberately around a two-year to three-year timeframe. We didn't want to confuse anybody, this is all going to happen in any one quarter. And then of course, laying the foundation for what I think is an incredibly bright future as we look ahead to blended reality both immersive computing and 3D printing.

<A - Diana Sroka>: James Kisner?

<Q - James Kisner>: Yeah, thank you. James Kisner from Jefferies. I was hoping to dig into the EPS bridge a little bit. So you have, I think, $0.13 here as a benefit from the change in your supplies go-to-market strategy. I was just hoping we could drill down a bit in the underlying assumptions there, how much of that is just less trade incentives and what do you think about the revenue and unit impact? I mean, it seems to me that there could be some risk to that strategy. It's pretty big pivot. And just separately, I was curious about this $0.45 of productivity savings. Is that coming from a bottom-up analysis, or is that more just driven by what you need to deliver to keep earnings flat? Thanks.

<A - Catherine A. Lesjak>: Well, maybe we can start with the Printing assumptions, Enrique, or you maybe just recap some of that.

<A - Enrique Lores>: Sure. I think that – let me start from the cost savings. This comes now from our bottom-up analysis that we have actually built, and this is the way the plan has been structured. In terms of the impact of the change in the go-to-market model that you see in the model, what Cathie
was showing is actually the non-negative impact that we'll have next year. As we reduced the general inventory of supplies during 2016, we had to reduce the shipments that we did, and this had a negative operational profit improvement. As we will not be doing that next year, this is what Cathie was showing in the bridge.

<A - Catherine A. Lesjak>: So, I think what's important is that there's no risk to that. This is what we did in 2016 and we're not doing it again in 2017. So that one is a pretty straightforward one. And then, I think your question was – I'm sorry, I didn't catch – it was on the productivity initiative. So the productivity initiatives were basically bottoms-up as well. And as is normal at this point in time, we do not have a line-of-sight to every dollar yet, but we have enough ideas today and some of them concrete that believe give us confidence that we can generate $1 billion in productivity savings, again, next year.

<A - Dion J. Weisler>: I recall almost the identical question this time last year. When we were looking back on the year before where we had achieved, I think it was something in the order of $1.5 billion of productivity improvements, and we said that in 2016, we'd need to deliver another $1 billion, and the question was, how on earth can you do that again? I remember very clearly telling you all that I've been doing this thing for 30 years. And as a Junior Woodchuck, we're now used to get these targets down from up above I used to think, well, what we did last year was almost like mission impossible, it's not possible to do it again. And every year for the past 30 years, that is just the way that these businesses work.

You need to continue to take cost out of the business, you do it by reengineering processes, you do it product simplification, you do it by analyzing every single sentence true within the bill of materials, you do it by looking at your [indiscernible] (03:02:35) and look at locations, there is no single magic pill in this business. But as technology improves, new ideas surface. So, as Cathie mentioned, we don't have line of sight to every single dollar within the bridge but in so far as this year, we said we'd do $1 billion. Cathie mentioned, we're going to do significantly more than $1 billion, and we expect that will continue into next year as well.

<A - Catherine A. Lesjak>: And the other thing that I mentioned is that, I think separation has played a really important role here, because, A, we're now two businesses with a lot of similarities. And so we have opportunity to look at global processes, reengineering them, standardizing them and frankly bringing IT solutions to them. And we're also improving our – we're starting to make investments in 2017 and improving our IT environment, and that is enabling on some of the restructuring other charges that we're looking at for 2017 and beyond.

<A - Diana Sroka>: Okay. Kulbinder, please

<Q - Kulbinder S. Garcha>: Hi. Just a couple of clarifications, please. The first one is on the Samsung business you're acquiring. When you look at the puts and takes and there are a lot of things that have to happen I understand, but is there any reason why that business inherently can't do the same margin as your Printing business today? Is there any reason? I was curious like competitively or otherwise if we should be aware of?

And then, the second thing is also for long-term margin. It feels like once we get past 2017, why isn't this business is growing, which I think you've kind of alluding to some of the charts that we had on the printing and the PC presentations. But also why isn't it more profitable each year as well as you go more towards less transactional business as you have this improved mix in the PC side, it feels like 8% to 10% shouldn't be a range, it's a base that you've built from it could rise gradually each year. Is that how you wanted to think about the business in 2018 and beyond or not?

<A - Dion J. Weisler>: So let Enrique start and maybe Cathie, you can add and then, if there's anything leftover, I'm happy to jump in.
<A - Enrique Lores>: Let me start with the Samsung question. In the long-term, there is no reason why the business we're integrating from Samsung, we'll have a different profit profile than the business and the profit profile that we have in our core business has today, but this will be in the long-term. There are court actions to take in their core A4 business, and those that they have been investing significantly to grow their A3 business and until that business hasn't become bigger, the profitability will be lower because it's in investing mode. So long-term, it will be similar, short-term, we have work to do both on the cost side and also on the growth side to pay for the investments that are being made.

<Q - Kulbinder S. Garcha>: [inaudible] (03:05:18)

<A - Enrique Lores>: Maybe a bit more than that.

<A - Catherine A. Lesjak>: So, just – maybe I should remind, when we announced the Samsung printer business acquisition, we talked about the fact that Samsung today is in investment mode in that business. Through the costs and the synergy actions, the fairly, I would say, low-hanging fruit from a synergy perspective in the first full year, we would expect it to be $0.01 to $0.02 accretive. And then to Enrique's point, then it's really about what happens over the longer-term. In terms of the 8% to 10%, right now our view is that that's the appropriate range from an operating profit perspective, balancing again, placing the printer units, which you largely lose money on, at the same time increasing the supplies. So it's kind of a balancing act. But at this point, our view is 8% to 10%.

<Q - Kulbinder S. Garcha>: Is that maximizing the area [indiscernible] (03:06:15)

<A - Catherine A. Lesjak>: Yes, it is. It's making sure that we make the right business decisions and investments in order to maximize the area under the curve.

<A - Dion J. Weisler>: But I'll tell you what I'm most excited about with the Samsung business is, the real reason why we bought it. When we last year said that we were going to be disruptive in the A3 printer market, we meant it. And so, immediately following that, we went out into the market and sort of looked at all the technology and all the competitors, did a very detailed study as we were selecting how we were going to participate. And we began working with Samsung quite some time ago, which is why the products are coming out, and I will not – this is exactly why we have diversity. I will not say this spring, because in Australia, it's not spring, let's just say quarter two. So, as the products come out in quarter two, that is the result of the work that we've been doing with Samsung for quite some time.

And as we're doing that analysis, what we discovered was that the technology was truly disruptive. If you think about that, they have not been in this business a very long time. The other thing that's worth mentioning is that Samsung attracts the very best talent in the industry. Anyone who is anyone has ambitions to work at Samsung that represent about 13% of the GDP of that country. So, here we have with 1,300 of the very best and brightest engineers in the country have developed more than 6,500 patents in the incredibly short period of time, but those patents are really disruptive to an industry that really has not changed much in over 30 years. You marry that with the expertise that we have to build everything else around the product. And now we have a value proposition that we can take out into the market that's really disruptive, because if you just sort of entry number 13 or 14 in the A3 copier space without having a point of differentiation or a disruption, it's going to be very difficult. Here we have that differentiation.

<A - Catherine A. Lesjak>: And no one else has that differentiation in the market.

<A - Diana Sroka>: Okay. Thank you. I think Sherri is next.

<Q - Sherri A. Scribner>: Hi. Thanks. Sherri Scribner from Deutsche Bank. When I think about HP, I think about you guys as a cash flow generator, strong cash flow through the PC business and the printer business with supplies, but when I think about last year I think your non-GAAP free cash flow guidance was
somewhere around $3 billion and this year, the midpoint of your free cash flow guidance is somewhere around $2.4 billion. So I'm trying to understand what's driving that decline in the sort of operating free cash flow of the business? And is that a permanent change to the long-term cash flow generation, or do you think the cash flow generation can improve from here?

**<A - Catherine A. Lesjak>:** So, I think maybe we can level set our current outlook for free cash flow in fiscal 2016 is $2 billion to $2.3 billion. And again, if you go back at the beginning of the year, I think it was $2.3 billion to $2.6 billion and then we took it down for the fact that we spent our divestiture gain that generates no free cash flow because it's just not included in the calculation and we use that to basically reset and change our go-to-market for supplies which costs us about $300 million in cash flow.

**<Q - Sherri A. Scribner>:** [inaudible] (3:09:27) longer term, you had talked about non-GAAP free cash flow at the Analyst Day last year was somewhere around $3 billion excluding all the restructuring charges in the separation and so I'm talking about it on a long-term non-GAAP basis, what changed there?

**<A - Catherine A. Lesjak>:** So I think what you're talking about is our normalized – the comment we made when we normalized. We wanted to show what the power of the business was generating in fiscal 2016 and that's where the $3 billion number comes from. I will tell you that that was with a different set of business outlooks. And so, what we were able to do is deliver on our commitment from a free cash flow perspective, but we did by improving our working capital, our cash conversion cycle pretty significantly and that's just at this point with the line of sight that I have, I'm not comfortable committing to another six day improvement in working capital. As I said, we will do everything we can, we will look at every opportunity, and we will see if there are other opportunities to optimize further, which would then give us a little bit of help in fiscal 2017.

**<A - Diana Sroka>:** Toni?

**<Q - Toni Sacconaghi>:** Yes. Thanks. Toni Sacconaghi from Bernstein. Dion, I think in your remarks, you've talked about a core addressable market for HP that's $385 billion and that kind of represented 85% of your business. A year ago, at this Analyst Meeting, you said that market was $415 billion. So, it's gone down 7% in one year. So 85% of your revenues have an addressable market that's declined 7% over the last year. And I think you said your outlook for this year was really not that different in terms of market dynamics. So when I just think about HP and its ability to actually inflect and start to grow, when you have 85% of your business, it's declining at 7% per year. That makes that growth math very, very, very difficult. And so, even if the numbers aren't precise just sort of directionally, as you think about that for – sort of for the math to work, is it – that your core markets actually get less of a headwind going forward or do you really believe that the growth – initiative growth will be substantial? I mean mathematically it needs to be like 40%, 50% a year over the next couple of years for you to positively inflect on the growth side? But what happens over time where investors can get comfortable that there is some kind of inflection point given that the core addressable markets appear to be very, very challenged and that's a brunt to your business?

**<A - Dion J. Weisler>:** So, the answer actually lies in the denominator. And as we segmented the business and figured out, which areas we want to play and in which areas we don't want to play. And we changed some of the assumptions. So we're not looking at an apple-to-apple comparison. So I'll ask both Ron and Enrique to talk about the changes relative – or the bridge relative to last year. We took some things out of that addressable market which is skewing your math there.

**<A - Ronald Coughlin>:** Yeah. So first on the addressable market for PCs. Really what we took out were some of the accessory areas like audio, like home automation. To me, that's – to be honestly that's a smaller story. If you were talking about year-on-year our growth prospects, a year ago commercial mobility was a desire to be in, we weren't scale. A year ago commercial services was a desire to be in, we weren't scaling on Device as a Service. A year ago premium, we were number five I think, a year ago. A
year ago gaming, we had a mini business. Now we're scaling of up to 300%. So if I look at what we took out, we took out smaller pieces of smaller businesses. What we have progressed in the last year are tangible, profitable faster growing segments. So it's a very different growth profile in terms of the prospects at least on the Personal Systems business.

<A - Enrique Lores>: And the changes that we did in the print TAM are driven by the divestitures that we did during 2016. As we exited some of the document management businesses, as we exited marketing optimization, as we sold Snapfish we removed from our TAM, the market associated to that. If we put that aside, the year-over-year evolution of the market is almost negligible.

<A - Dion J. Weisler>: And the reality is Toni that in the Personal Systems space, the big guys are getting bigger and the smaller guys are struggling to maintain scale. So we're being pretty disciplined about the parts of the business that are attractive to us and the parts of the business that are less attractive to us. And Ron, together with the regions runs a very disciplined process about which parts of the business, the more profitable parts of the business. So we don't get as hung up on the total available markets, the part of the market that we want. And we do the same thing in print, as Enrique talked about, it's not just units, don't just look at unit share, it's the quality of the units that we place and how much supplies they yield over time?

<A - Diana Sroka>: Rod Hall?

<Q - Rod B. Hall>: Yeah. Thanks, Diana, it's Rod Hall with JPMorgan. So I guess I wanted to – we've been talking to a bunch of three buyers and also talking to some of the users. And maybe I'm not a great salesman, but I try to make the disruptive pitch you guys have talked about – have talked about the serviceability, and none of these things seem to be particularly big problems for the people using these systems and it seems like a very stodgy place too. You go down into these print rooms and these guys really don't want to change the way they do things.

So, I'm just curious if you could talk a little bit about what your distribution strategy is into that market? How do you penetrate this market? And how fast are you expecting your market share to grow over time? Is it just a slow growth in share or how do you expect that to progress within these estimates you're talking about?

<A - Dion J. Weisler>: So, I'll start and then I'll let Enrique chime in. The real disruption in the technology that we acquired here is that these devices were designed as printers. They perform like copiers, but they were designed like printers. If you get a screwdriver out and you took a traditional copier and you were to break it down, you lay all the parts down on the floor, you'd end up with a couple of thousand parts. If you take one of our printers and you get a screwdriver and you break it down again, you end up with less than 200 parts. So that translates to a significantly simpler machine to operate and a significantly simpler machine to service.

And what I encourage you to do is to actually probe the people that you're talking to, to understand the business model, what it is, is all about service, the cost to service those products. And with this disruptive technology, what we're able to do is significantly lower the cost of service. That will result in, our end customers working together with our partners, will have a couple of choices.

And they want to retain more margin because it will be a lower cost base or do they want to be aggressive in passing those savings to the end customer and lowering the overall cost per copy, particularly in color where we have a really stark difference compared to our competitors. And they might choose to do a combination of two, and it's a sort of material difference. We're talking to some of the largest copier players in the industry and they understand exactly what the economics is here for them. It's going allow them all to be more aggressive and acquire new customers or take more margin, if they already have a very established book.
<A - Enrique Lores>: And I think building on what Dion was saying, we need to differentiate the value for the end user versus the value for the channel. For the end users, the value for solutions is in cost per copy, because the cost per copy will go down especially when printing color, and the uptime of the devices will be much better, because the devices will be more reliable. So the chances that the customer will go and try to get a copy and the copier will not be working will be lower.

For the channel, the advantages are what Dion was saying. The service cost will be lower, so they can either grow their businesses by being more aggressive in lowering the cost per copy to their end users or retain more value, and therefore making more money when selling HP devices. So it’s important to differentiate both.

<A - Dion J. Weisler>: And it might be a little stodgy the business. But from our perspective, whilst the new style of IT is very exciting, we’re quite enamored with the old style of money. There is a lot of money to be made in this business.

<Q - Rod B. Hall>: Your growth and share gain targets?

<A - Dion J. Weisler>: Share gain targets?

<A - Enrique Lores>: Sure. Our ambition is, over the next three years to five years, to become a relevant player. We seem to be relevant. When we combine the HP business and the Samsung business, we need to be in the 20% range and this is our aspiration for the next three years to five years.

<A - Diana Sroka>: Okay. We have to wrap it up, but Wamsi I see, have a mic. Let’s finish up with you.

<Q - Wamsi Mohan>: Thank you. Wamsi Mohan, Bank of America Merrill Lynch. I appreciate you guys sharing more detail on the Four Box Model. So my question is actually on that. If you look at, particularly in the office space, you have the installed base which seems to be a drag. The usage is sort of mixed, the pricing you’re saying is sort of flattish.

So the real driver for growth within that Four Box Model seems to be gaining supply share. As I look forward to next year here, A3 launch is going to be mid-year, so can’t be such a huge driver of that. So are we talking about the supplies normalization that is basically being driven by third-party remain alone in 2017, or are there other catalysts that I’m not addressing here? Thank you.

<A - Enrique Lores>: Yes. You are missing actually a very important variable in the model which is the quality of the units that we place, and this is why we made so much emphasis on this. What will be driving or helping to drive the supplies business to grow in the office space is actually this change of mix. This is why placing high valuable unit is so important for us. It is very different to place on high value MFP, multifunction printer versus allowing laser. There are big differences in the consumption, big differences in the value of these units and this will be the key driver of that.

On top of that, as you said, we expect to grow share. In developed countries, we have been growing share, mostly driven by the changes we have done in the go-to-market space by focusing on online which was a segment that we were behind, by being more aggressive in certain segments and we’re going to continue doing that in 2017.

<A - Diana Sroka>: Okay.

<Q - Wamsi Mohan>: [Question Inaudible]

<A - Enrique Lores>: But this is something that – and I was showing the chart, is something that we started already some time ago. This is why we’re showing you. We compare 2017 to 2015, there is an 18-point difference in terms of value. And this is mixed for full fiscal, but this gives you an idea on the impact the change in mix is going to have.
Dion J. Weisler

So, I’d like to thank you all again for spending your precious time with us. We very much appreciate it. I’m sure you can feel, see, taste the energy that this team has, and a passion that we have for our customers to engineer experiences that amaze every day. We’d like to welcome you to join us in the Annex where we have many of those amazing experiences. We’ll be there and I’m sure that we can extend our conversation.

So, thank you very much for coming. I look forward to seeing you again soon.