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HP, Inc. (HPQ)

Bank of America Merrill Lynch Global Technology Conference
CORPORATE PARTICIPANTS

Enrique Lores
President - Imaging & Printing Business, HP, Inc.

OTHER PARTICIPANTS

Wamsi Mohan
Analyst, Bank of America Merrill Lynch

MANAGEMENT DISCUSSION SECTION

Wamsi Mohan
Analyst, Bank of America Merrill Lynch

I'm Wamsi Mohan, I'm the IT, hardware and supply chain analyst here at Bank of America Merrill Lynch. We're delighted to have HP Inc. with us today. We have Enrique, it's all about the supplies, Lores from HP. Enrique has been a big part of seeing the supply story turnaround of HP, so delighted to have you over here today.

Enrique Lores
President - Imaging & Printing Business, HP, Inc.

Thank you.

Wamsi Mohan
Analyst, Bank of America Merrill Lynch

We just have one disclaimer slide I think that we're going to go through. So, Enrique might be making some forward-looking statements here. So if you could just pay attention to the slide and breeze through it. But what I would do is like to kick off the Q&A and if there is any questions from the audience, just raise your hands and we'll go there as well.
QUESTION AND ANSWER SECTION

Wamsi Mohan

Analyst, Bank of America Merrill Lynch

Q

So to kick it off, Enrique, can you just talk about – let's start with the Four Box Model that you guys have been talking about now for a while. What has been the historical predictability of the Four Box Model, and when you have not necessarily sort of either you overachieved or underachieved the Four Box Model, what were the reasons which created that under or over performance at different periods of time?

Enrique Lores

President - Imaging & Printing Business, HP, Inc.

A

I think the Four Box Model is a good model to predict, what will be the usage, the supplies business when there are no big changes in economy. So what we have seen in the past is what we are not able to detect is any changes driven by big economic improvements or erosions in certain countries, political moves, when these things that have an impact on printing happen is when the supplies, the Four Box Model doesn’t work or is not able to predict as clearly as usually.

What we have seen is in all the situations, it is a good predictor and we constantly work to improve and to refine it. So, when we launched a new printer, we had some assumptions on what is going to be the usage. After a certain period of time, we check if the usage is aligned to our projections or not and then we adjust. So, it’s not a model that is fixed. It's a model that we adjust over time, but is proven to be a good – again a good way to forecast the business except when there are big, big changes that are really outside what I would say the supplies model.

Wamsi Mohan

Analyst, Bank of America Merrill Lynch

Q

So, when you look at the Four Box Model and look out to next couple of years, what part of this do you think you have the biggest opportunity to drive more favorable growth versus what might be the smallest driver, if you could rank order the various drivers?

Enrique Lores

President - Imaging & Printing Business, HP, Inc.

A

Sure. If we look at the model, I think the major opportunity we have, which is what we shared also in the past, is about controlling and managing the quality of the units that we sell, that we install. There is a big difference between – in supplies consumption between, let's say, low in Deskjets and high in LaserJets or high in OfficeJet. So, the more we can manage the mix is probably the best opportunity that we have in what I would call the core business to manage the supplies business going forward.

In terms of other big opportunities we have, the investment and the growth that we are going to do in A3 and the growth that we are going to see in graphics are also going to have big implications on the supplies model.

A3 because – actually in both cases because the consumption of pages and toner in A3 devices or of ink in the graphic devices is much higher than what we have in the average core business today. So, mix, graphics and A3 are the three top opportunities we have.
Wamsi Mohan  
**Analyst, Bank of America Merrill Lynch**

So when you think about third-party reman for instance that I think has been a headwind to your business for multi-year period. How do you see that changing? What are the things that you're doing to gain that 10-point share dealt up that happened over the last several years?

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Enrique Lores  
**President, Imaging & Printing Business, HP, Inc.**

Yes. I think, first of all is, I don't think it is worse now than it was 10 years ago. I think it has been a headwind that we have been facing for a long time. The actions that we are taking are a combination of short-term and long-term actions. In the long-term, probably the transition towards contractual is the best way that we have to protect our business, because when we sign a contract with customers to either manage their printer fleet in the case of a business customer or when a customer enrolls in Instant Ink, it's a very good way for us to make sure that this customer will be using HP original supplies for the life of the printer.

And this will be I think in the long-term the best thing that we can do. Of course, improving the technology and making sure that our printers would have the best quality when using HP supplies, has a lowest consumption and have the more durability of the prints is another big thing that we do. And these are all longer term things.

On the short-term, is really about competing in the market day to day, is about making sure that our supplies has the best coverage in the industry, which means that when a consumer goes and tries to buy supplies, they always find HP's original supplies. And this is true both in the physical world and in the web. And this has been for example one of the big changes and big areas of improvement during the last years. We have invested significantly more in our presence online and this has paid off in terms of growing our share in that category.

And another thing that we do, and this is really merely focused on those supplies that we believe are violating our IP, we have built into our printers technologies that will prevent them to be used in the case that supplies are violating HPIP. We invest a lot in HPIP and for us protecting that is a key part of protecting our business going forward.

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Wamsi Mohan  
**Analyst, Bank of America Merrill Lynch**

And when was that motion set into place, it's been a couple of years now that the ability to knock one other supplies to your printer?

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Enrique Lores  
**President, Imaging & Printing Business, HP, Inc.**

It has been going on, I think it's between two years and a half and three years now. But again, this only happens when the alternative supply is violating HPIP, there are many other cases where our printers support it because it's perfectly legal.

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Wamsi Mohan  
**Analyst, Bank of America Merrill Lynch**

So, when you think about the install base on the inkjet and laser side, how long are printers active within your install base both on inkjet and on laser side?
Enrique Lores  
President—Imaging & Printing Business, HP, Inc.

The life is slightly different. Our assumptions are that for business customers, which mostly will be using laser devices, the life of the printers is between five and seven years. While for consumer customers, the life is between three and five years, depends on the model, depends on the premium, but these are kind of the averages we use in our models.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch

So, would you say that the third-party reman issue is, if you got a six year life of a laser printer, you’re two years through attaching HP original supplies here. You’re a third of the way in some ways of gaining back your reman shares, is that a reasonable way to think about that?

Enrique Lores  
President—Imaging & Printing Business, HP, Inc.

Yes, I think, I would say yes and no. It is true that throughout the life of the printer, we see the share of HP original supplies declining. But it’s not as black and white as saying, after three years everything goes to reman. So it’s more gradual. Again, depends on countries, depend on segments, but is more a linear decline what we see.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch

Okay. When you think about the stability and supplies this year, how would you characterize that between ink and toner?

Enrique Lores  
President—Imaging & Printing Business, HP, Inc.

Okay. So first of all is, we announced or we committed two years ago that we were going to stabilize the supplies by the end of this year and this is still our plan and this is still what we believe is going to happen. In general, we see stability of toner faster than in ink, just because of the units that we have been placing and where we have seen most of the growth.

As we have explained many times, we see a better – a market more stable in the office space and the office space tends to be more of a laser toner than in the comp space. And of course, this has implications also on supplies.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch

So maybe shifting to the office space, one of your initiatives is Ink in the Office and you’ve introduced PageWide array products to sort of support that. Can you talk about what you have seen in terms of adoption rates of Ink in the Office?

Enrique Lores  
President—Imaging & Printing Business, HP, Inc.

Yes. I think probably the most important result of our introduction of Ink in the Office is that our overall share when we look both at laser and ink has actually been growing. It is not that because we introduced Ink in the Office we cannibalize our laser jet sales, it’s actually the opposite. We grew our share with ink and we grew our share in
laser, because now we have a more complete portfolio than what we had before. And we can offer different combinations, depending on whether customers are looking for lower cost per copy in monochrome, lower cost per copy in color or the highest quality in color. Depending on the option they’re looking for, we always have a good answer for.

So PageWide and [indiscernible] (10:06) Ink in the Office program has helped us to make that possible and for us it has been a good investment and we are really – it is very strong, very good for us, the fact that we can offer these two alternatives to the customers. And this is why when we have planned our A3 portfolio. We have also planned it integrating laser and ink technologies, because this way we can, from a cost per copy perspective, offer the full array of solutions that customers are going to be looking for.

Wamsi Mohan  
**Q**

Are you compensating your sales force differently in terms of placement of ink-based unit versus laser-based units.

Enrique Lores  
**A**

It depends on the quarter, in some quarter we have offers, special programs to accelerate the adoption of Ink in the Office, but we did most of it in 2015 and 2016. I think majority of the case there we are not doing anymore in 2017 because we have reached a level of adoption that we think is high enough.

Wamsi Mohan  
**Q**

When you look at challenges in driving Ink in the Office, what are some of the key technological challenges that you’ve had to overcome and do you feel that customers now are at the point where they actually feel that it's a comparable product or what would you say between the inkjet like high speed inkjet printers that you're offering today and the comparable laser performance?

Enrique Lores  
**A**

In terms of the technology breakthrough that we had to make, I would say there were three. First of all, is about achieving at high printing speeds at similar level of quality with ink than what we get with laser.

Second, it is not only about the image quality, it's also about the page attributes. If you take a page printed with an ink printer, the way the page looks is different, it is more wavy because the ink penetrates inside the paper and we have made a big effort to make sure the two pages look as similar as possible.

And the third has been in the area of accessories. Believe it or not, accessories and accessories means sorters, staplers, all those other devices that you connect to the printer have been designed to be used with pages that were printed using toner. For example, when you have two pages with toner, the friction between pages is lower than when you have two pages where you have printed ink. So we have had to make a lot of work, do a lot of work also on the accessory side to make sure they can manage pages using printer with ink.

And then you had another question which was in terms of attributes. The way I would describe it today, ink or an ink printer is the best solution when customers are looking for lower cost per copy in printing color and high speeds. If customers are looking for the lowest cost when printing monochrome, only black and white, or the
highest quality in printing color, laser is still a better technology. And this is why by offering the two technologies, monochrome, ink color and laser color, we make sure we offer the full array of solutions.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch

Can you also talk about your Instant Ink initiative. Do you see that as something that just stops the – accelerated maybe a level of decline that existed few years ago in terms of home printing or is it – and what has been the adoption of that?

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.

So this is a program that we launched in the U.S. some years ago, where customers subscribe to a program that we manage and what we do is make sure that when customers need to print, the printer is always ready to print. We monitor the consumption of the printers via the web and we make sure that customers have supplies, the printers are ready because we have shipped supplies before printer runs out of ink which, as we were talking to consumers some years ago, we saw was the number one pain point that they had. They wanted to print, they had forgotten to buy the cartridges a week before, two weeks before, and they couldn't print because the printer was not ready.

So we have addressed that problem. And also, when customers subscribe to the program, the cost of printing is significantly lower, significant around up to 70% lower cost. And the adoption of the program has been very, very solid in all the countries where we have launched it, because again delivers a very good value proposition for a big majority of our consumers.

In terms of consumption, what we see is that, in general, the consumption of our customer using Instant Ink is slightly higher than the average consumer. So, it is showing that by customers registering to the program, we can help or we can increase consumption, not dramatically, but I would say significant.

And what we have seen is that on top of that, the retention rate is extremely high. And extremely high is above 95%. So when customers start using the program, they like it and they stay in the program. And there is not a contract. So it's not they stay – they don't stay because they sign a contract with us, because at any point they can discontinue the program and can go to the traditional model, so they stay in the program because they see the value that they get, simplicity, and lower cost per copy.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch

Yeah, I can attest to that, I'm a user of that. And we go between $4 a month to $10 a month based on the usage, whether it's finals time or not for my daughter.

So, can you talk also about Managed Print Services because I think that's a big opportunity and focus area for you. So, what are some of the most important things that investors should watch for in MPS?

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.

I would say Managed Print Services is very important. First, because customers want to buy this way. But from an HP perspective because of two reasons. First, I said it before, when we manage the printer fleet for a big
corporation, we make sure that they always use HP original supplies. So, to protect our share of supplies in big accounts, this is fundamental.

Second, we have seen over time that as we manage the printer fleets, we can offer other type of services to these customers. So our business model gets better because we make money, not only on hardware and supplies, but we had a third leg on services. And these services go from a preventive maintenance of the printers, making sure that the toner is in place. We have added some security services. So we have really improved the portfolio of services that we offer to customers that we manage, and this is having a big impact on the business model for these customers. And I think these are the two key things I would look from an investor perspective.

Wamsi Mohan
Analyst, Bank of America Merrill Lynch

How large would you say the addressable market is for MPS as it pertains to HP?

Enrique Lores
President-Imaging & Printing Business, HP, Inc.

So let me answer differently, when we look at the office market, around 30%, 40% of the office market is I would call enterprise and a big majority of enterprises wants to buy now Managed Print Services. As we launch our A3 products, this is also increasing the time that we can capture, because until now, many Managed Print Service deals who were limited by the breadth of our portfolio, because we only had A4. For many large corporations, A3 is very important because we can now go after centralized environment headwind. And this is opening and increases the time that we have for the Managed Print Service business.

Wamsi Mohan
Analyst, Bank of America Merrill Lynch

What is the profile of these contracts in MPS like how many years long is it and what sort of data do you have that shows how many people renew these?

Enrique Lores
President-Imaging & Printing Business, HP, Inc.

I would say, usually it’s between three – the extent of the contract is usually between three and five years. Once a customer moves into this model, stays in this model and this is up to us to be able to win again that account.

Wamsi Mohan
Analyst, Bank of America Merrill Lynch

Yeah.

Enrique Lores
President-Imaging & Printing Business, HP, Inc.

And we have high winning rates on repeating customers. But once a customer moves into a Managed Print Service model, they actually stay in that print service model. And one of the benefits that we have seen and I know we are talking about print, but from a company perspective, an opportunity that we see is to extend and to leverage the platform that we have in Managed Print Services towards also PCs as a service. Because one of the questions we get from customers is, you’re managing my printer fleet, you really are doing a good job managing that, will you be interested in also managing my PC fleet, and this is something that we are also integrating now into our portfolio.
Wamsi Mohan  
Analyst, Bank of America Merrill Lynch

Can you talk a little bit about what sort of revenue size you have now from MPS and what the margin profile you have there now?

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.

I don't think we disclosed the details, but let me tell you, it's starting to be a significant portion again of our enterprise sales within the business space.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch

And the margin profile relative to aggregate segment margins for print?

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.

So paid account, the margin profile is lower in percentage than what we get in a normal transaction. But in dollars, it's higher because we also make money with services. So when we transition an account from the traditional model to a contractual model, we make more money on paid account even if the dollar percentage might be different.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch

Can you talk about your main competitors in this space on MPS and how are you going about trying to win share?

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.

Yes, I think the key competitors are Xerox more from the printer space and then all the traditional copier vendors that have been playing this model for a long time. Really, our way to differentiate in this space or to grow share is, first, by integrating into our portfolio our A3 product that is really expanding the number of opportunities that we can go after. By differentiating through security, we have been talking during the last two years of how important security is for business customers and this especially relevant in Managed Print Services because in that case, we are really making sure that the printers are activating on the security technology that we have put in place.

And the third key differentiator is actually customer satisfaction. We monitor net promoter score for this engagement and we have the highest Net Promoter Score in the Managed Print Service space. And this is a very important proof in both – for existing customers but also when we try to expand our offering to new customers.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch

Do you see much cross-vendor support in MPS like where you manage not just HP products but other products or vice versa?

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.
Yes, especially for new customers because the way many of these deals happen is – especially the customer is entering in a Managed Print Service engagement, they will have already a fleet of printers and transition in this fleet to a new vendor is relatively expansive. So, it's usually more of a year-by-year process where every year we replace part of the install base and we manage the service and supplies for the rest of the install base. And overtime, we transition the customer to a full HP portfolio. But usually, it can take between 6 and 24 months until we complete the transition.

Wamsi Mohan  
**Analyst, Bank of America Merrill Lynch**

You guys have announced your Samsung transaction that's expected to close here in the next couple quarters. How should we think about how accretive this business opportunity can be. I remember maybe even like 10 years ago, HP was talking about the A3 copier market opportunity. So, what is it that has changed today that gives you confidence that you will succeed in this market and be able to grow and gain share?

Enrique Lores  
**President-Imaging & Printing Business, HP, Inc.**

So, first on how accretive it will be, what we said when we did the acquisition is that during the first year of integrated operations, it will be between $0.01 and $0.02 of additional profit to operational EPS and this is what we are still planning to deliver. In terms of why do we think we have now a solid plan of A3, is because three big things have changed. First of all, is the breadth and the competitiveness of our portfolio. When we look at the technology that we are getting from Samsung, the products that we're getting from them. And the A3 printer is based on HP PageWide technology, we think we have a very competitive portfolio.

In fact, this portfolio in both cases has been developed with one common strategy, which is to reduce the service costs for resellers and our printers both for ink and laser are as a minimum 20% cheaper to support than traditional copiers. And this means that when every reseller will sell these units, they can be either more aggressive with the price they will offer to end users or they can make more money because the core cost is lower, which is a very important component of their business model.

So first different thing is the portfolio. Second is the fact that differently from many years ago, when we tried, now we have a very solid Managed Print Service business. And we can leverage both accounts that we have, but also deals that we have in the funnel and integrate the three portfolio into the MPS business, which will immediately help us to grow. And third is, because we did a lot of work to understand or didn't work last time, especially when we were selling through resellers and we have been working for the last 18 months to make sure that both from a support perspective, program perspective, we modified all our processes and infrastructure to be ready to sell also through traditional copier resellers.

Wamsi Mohan  
**Analyst, Bank of America Merrill Lynch**

When you think about copier resellers, I'm assuming it's pretty hard to target the Tier 1 sort of reseller markets. So what's your strategy in terms of how you go about targeting that reseller channel?

Enrique Lores  
**President-Imaging & Printing Business, HP, Inc.**

Yes. So, we know that A3 is a medium- to long-term opportunity. So it's not something that we are trying to materialize in the next months. We know that it's a huge opportunity, we have explain, it is a $55 billion market where we haven't been playing until now. So, we have build a long-term strategy to go after that. For the next two
years, our strategy is to be the leaders of what we call the second tier vendors, not the number one vendors. And we expect this to finish in 2019, 2020. Once we will be there, our strategy will be to become the leader of the Tier 1 vendors.

**Wamsi Mohan**
*Analyst, Bank of America Merrill Lynch*

*Got it.*

**Enrique Lores**
*President-Imaging & Printing Business, HP, Inc.*

And this is reflected also in what type of partners we got. And not only on what type of partners, but also in what type of share of wallet we want to have in the partners that we go after. We know that as a Tier 2 vendor the share that we’ll have is lower than a Tier 1 vendor, but we also know that we need to get to Tier 2 before we can become Tier 1.

**Wamsi Mohan**
*Analyst, Bank of America Merrill Lynch*

When you think about the Samsung portfolio with the visibility you have today, is the mix between hardware and supplies very different from your traditional printer business?

**Enrique Lores**
*President-Imaging & Printing Business, HP, Inc.*

*It’s really fairly similar.*

**Wamsi Mohan**
*Analyst, Bank of America Merrill Lynch*

Okay. Would you say that your own mix of supplies versus hardware, do you think that that changes in any material fashion over the next five, six years if you think about the trajectory of the improvement and supplies growth relative to what challenges there might be on hardware placements?

**Enrique Lores**
*President-Imaging & Printing Business, HP, Inc.*

*I would say in the next two or three years, no, in the next five to eight years, probably yes. And there is one big trend that is going to be impacting that which is a shift from a transactional model to a contractual model. As we go into our contractual model, the profile of the supplies business changes, because – let’s take our consumer, when they buy Instant Ink their case...*

**Wamsi Mohan**
*Analyst, Bank of America Merrill Lynch*

*Right.*

**Enrique Lores**
*President-Imaging & Printing Business, HP, Inc.*

*...you pay per month $299 is the average – is the standard program, so you pay $299 for 12 months, before you have paid the same amount of money you would have paid buying a cartridge.*
Wamsi Mohan  
Analyst, Bank of America Merrill Lynch  

Yeah.

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.  

So the profile of the supplies business today is you buy a cartridge, you use it for some time then you buy the next one. In the case of Instant Ink, it’s more linear. As the weight of this businesses gets bigger, this will have an impact on the supplies model...

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch  

Right.

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.  

...on the supplies to hardware model. But again, for this to be material over the truly install base, is fairly a discussion of three years and beyond, not so much for another three years.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch  

Can you just talk a little bit about the cash flow generation capability of the business. I mean if I go back, I don't know, 10 years ago, I think the cash flow from the print business was $4 billion or so. Feels like the cash flow now is lower than that. Can you just talk about what were some of the drivers around that, which led to that sort of shrinkage from the overall install base perspective. And how much do you see of that can reverse?

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.  

I think at the end, the cash flow is going to follow what the operating profit of the business is. And what has happened, if we look at the business, six, seven years ago, the size of the business was larger than what the business is today. And what happened with cash flow really is just following what has been the overall evolution of the business.  

As we project where are we going forward and as we get the business back to positive growth, the cash flow will be following that growth, as everybody here expect.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch  

When you think about some other competitors, they have introduced some products which are larger tanks and thinks like that on the inkjet side. How do you think about that? Is that changing the way you approach the market as well?

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.  

I think in some countries, yes. What we have seen is that in countries and so far has happened mostly in emerging countries where the cost of supplies and the cost of printing compared to their alternatives was too high. We have seen that customers had adopted these solutions where they buy the printer and when you buy the printer, you get supplies for a year or two years inside the printer.

We have introduced products in this space, I think it was 18 months ago and we have been growing our share in this category. So our plan going forward is for those segments where we think this will be relevant and where do we think there will be an opportunity, this is an offering that we’re going to be integrating into our business. And with these changes is also the profile of a business, because in many cases, as you know, when we place a unit, we don’t make money and then we make money on supplies.

In these cases, we make money upfront and depending on what country this is, it’s actually a good thing because in those countries the [ph] connectivity (30:54) was so low but in many cases what we call the MPV of the unit was barely marginal. So it’s a good way to make sure we make profit from the beginning.

Wamsi Mohan
Analyst, Bank of America Merrill Lynch

Let me pause here and see if there are any questions here in the audience. And if you would wait for the mic if there’s any questions here in the audience. Let me ask you about the impact from the Japanese yen, so maybe it’s not a quarter-to-quarter impact necessarily but longer term directionally, if the yen strengthens, how do you view the impact of the business?

Enrique Lores
President- Imaging & Printing Business, HP, Inc.

We see the impact on two sides and in different ways. Depending on where did yen goes, in the case of the laser side, we buy a lot of products, as you know, from Canon. So depending what happens with yen, our products become more expensive or more cheaper.

Wamsi Mohan
Analyst, Bank of America Merrill Lynch

Yes.

Enrique Lores
President- Imaging & Printing Business, HP, Inc.

But this plays also on the other side in terms of how competitive our offerings are in the market, because this gives them more or less pressure when they need to sell their printers in the market.

Wamsi Mohan
Analyst, Bank of America Merrill Lynch

Right.

Enrique Lores
President- Imaging & Printing Business, HP, Inc.

So I would say that the trend that has happened during the last year has been mostly beneficial, because even from a cost perspective, we have seen cost increases, from a competitive perspective we have become more
competitive because they have not been able to sustain some of the pricing that they have in the market and this is true for all the Japanese competitors.

Wamsi Mohan  
**Analyst, Bank of America Merrill Lynch**

Yeah. But when you think about some of the competitive landscape here, if you go back to sort of the PC side of the business, there has been just a lot of PC players that have been marginalized over time. How do you see that on the print side of the business, is this something where you think the same dynamic plays out?

Enrique Lores  
**President-Imaging & Printing Business, HP, Inc.**

I think, yes, but it will probably be slower, because in the printing space because of the business model of hardware plus supplies, it is possible to keep making money on a printing business for a longer perspective. And I think this is what is happening today. If you ask me 10 years from – if we look at the office space today, there are 12, 13 competitors. Is this sustainable in the next 5 to 10 years? I don't think it is. Some of these companies will have to be sold or bought or merged, but something is going to happen. And in fact, some of these companies are already having some financial problems. So it will happen, but I think it will happen slower than what we have seen in the PC space.

Wamsi Mohan  
**Analyst, Bank of America Merrill Lynch**

One question around sort of a bigger picture question like when Dion became CEO, one of the things that he brought to the table was just a lot of focus on cost structure. And on the PC side, obviously, a lot of that cost structure implementation and discipline has been there for a while.

On the print side, it was less so. And so if you look now at where you are in terms of how much more room there is to improve the cost structure, I mean, some of that get to be invested, we understand, but how much more room do you think there is such that you could lower the cost of a unit to increase the TAM ultimately or gain share?

Enrique Lores  
**President-Imaging & Printing Business, HP, Inc.**

Yes. So, I think in terms of focus, I would say the focus is now similar between PCs and printers. In fact, before I managed printers, I was managing PCs. So we took a lot of the processes and good practices that have been built in the PC space and we adopted them in the printer side. And what this has allowed us is to really accelerate the number of placements that we make.

If you look at unit growth, one of the reasons where we have been able to grow units and still deliver on our profit goal short term is because we have been very aggressively reducing our cost structure. So, we were able to place more units. And I would say in the print space, applies the same rule as in PCs. There are always opportunities to keep reducing costs always. And things that we don’t know today or don't come to our mind today as we work on cost reductions and we do certain things, we find other opportunities to continue doing that.

For example, in the case of the print space, we have been running a process of consolidating our factories and we have been reducing the number of factories that we have. We announced a few months ago that we were exiting from Ireland where we have been manufacturing our cartridges for a long time. And what is behind that is the effort that we have in cost reductions and making sure that both are – they're probably same level, but also at
the operational level. We have the most efficient cost structure that we can think of. And think of is a right word, anything that we can think, we go and do.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch

I think we probably just have time for one last question, so let me just close with graphics. We didn't really touch, spend lot of time on it, but when you look at the incremental opportunity from a graphic standpoint, what do you think this is, how material is it for HP over the next few years?

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.

So today, we shared in the past that this is around 15% of the total print business. And our ambition is to make it a more relevant part because we see the opportunity everywhere. I mean, if we look around that, we all see the opportunities to continue doing that because definitely from what happens in other segments or the print space, it is a segment that is going to continue growing during the next 5, 10, 15 years. Because the graphic opportunities are there to stay, and our plan is to expand it into all areas where we think it's possible. In the next two years, our focus is in packaging. Packaging across flexible, corrugated, and folded carton were the three big growth opportunities that we see. And beyond that, we are starting to explore textiles and many other areas where we think digital is going to be also penetrating down the road.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch

Great. Well, I think that's unfortunately all the time we have, so thank you Enrique...

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.

Thank you.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch

...for taking your time. Really appreciate you.

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.

Thank you.

Wamsi Mohan  
Analyst, Bank of America Merrill Lynch

Thank you all for joining us.

Enrique Lores  
President-Imaging & Printing Business, HP, Inc.

Thank you.
Wamsi Mohan
Analyst, Bank of America Merrill Lynch

Thank you.