Toni Sacconaghi: Good morning everyone, I'm Toni Sacconaghi, Bernstein's US IT hardware analyst. And thank you for joining us today. We're very pleased to have Dion Weisler, HP Inc.'s Chairman and CEO. Dion joined HP in January 2012 and became CEO of HP Inc. upon its spin-off from Hewlett Packard in November 2015. Prior to that Dion served as an Executive Vice President of Printing and Personal Systems at HP. Before joining HP, Dion held leadership positions at Lenovo, Telstra, and Acer. He holds Bachelor of Applied Science Computer degree from Monash University in Australia.

We're really pleased to have him. Dion's agreed to do a Q&A fireside chat site format. So I'm going to sit down and we're going to begin that. If you do have questions you can write them down on the question cards, which are in the center of the table and they'll be a gentleman coming around to pick those up. And I'll be taking from those periodically. If we can just put the disclaimer slide up, I just wanted to highlight that you should be attuned to the statements around forward-looking statements, you're all familiar with it. It's my obligation to provide that to you. So we'll keep that up there for a second while I sit down and we'll begin the Q&A.

Well, Dion, thanks again for joining us.

Dion Weisler: Pleasure to be here as always.

Toni Sacconaghi: You reported pretty good results last week, fiscal Q2, revenue grew 7% albeit versus an easy comparison. Very briefly what do you think were kind of the highlights of the quarter or key takeaways for investors?

Dion Weisler: What I commented -- characterized on the earnings call was a breakthrough quarter for us because it was the first time since 2010 that we had both business segments printing and personal systems grow. Our printing business grew at 2% year-over-year as reported and our personal systems business grew for the second quarter in a row at 10%. And we did all that while expanding margins in our printing business taking profitable share in both segments, delivering EPS at the high-end of that range it's $0.040. We reaffirmed our cash flow projection for the full year 2.3 to 2.6 and said would be at the higher end of that range.

And we effectively raised that with the outlook that we gave for the remainder of the year. So we felt pretty good about our journey along the reinvention of the company across all of our pillars of the strategy core growth infusion, I'm sure we'll get into that in future questions. But I would say that the team is feeling incredibly proud of doing what we said we would do. It was very important to us as a new company that we have the trust of our customers, our partners, investors,
and consistently quarter after quarter we've been delivering the financial results that we promised and doing that the right way through incredible innovation.

Toni Sacconaghi: So Dion, maybe we can spend a little bit of time on printing and then we can spend some time on PCs. So just on the printing side, I think most investors struggle with the notion that printing will grow going forward. And I know there's a lot about being generic around printing overall and there are segments, but maybe we can start with consumer and then talk a little bit about commercial. On the consumer side of printing, I think at your Analyst Day, you talked about that being a challenged market. So maybe we can start there and how do you think about market opportunities for growth on the consumer side of printing?

Dion Weisler: I'm happy to do that and before I frame the core and sub-segment in the consumer, when I think about printing, I think broadly across our printing in our core business today. There is also a very big element of growth in our A3 portfolio, which we've just launched out into the market and I'm happy to cover that either now or later and then there's a very third and important element of our printing business, which is 3D printing, which I think, provides incredible growth opportunities for the future. But if we kind of stick into the core which was the essence, I guess, Toni of your question, we -- at a very high level, we sub-segment that market into consumer and commercial and we've agreed and believe that there are parts of the consumer market that are indeed in secular decline.

And I've consistently said that I'm not sure that we can return that segment to growth, but what I believe is our responsibility is to reduce the glide slope of that decline. And I think we're doing that through innovation and appealing to customers that in many cases haven't experienced printing at all. Phasing point being many millennials that have got their mobile phones and lots of photos that are trapped in those phones and they've actually never even printed. And so what we've been focused there is to understand these big mega trends and figure out through product innovation and customer insights, how we can make that printing experience relevant in the modern world that we live in today. And we're doing that through a lot of social connections.

So you can now control your printer through your mobile phone, very easy connections through modern applications to be able to print both on iOS and within Google and generally making that segment more fun, we're using vibrant colors, changing the footprint. Then we're creating entirely new categories like Sprocket, which is a mobile printer that you can fit in your pocket that talks to your mobile phone and enables you to printout photos directly from your phones. So we're doing many things there to reduce the glide slope of decline and to make printing more relevant.

Toni Sacconaghi: So if we flip over to the commercial side, Dion, I don't know if I've shared this example with you. But -- so Bernstein is part of a larger public company called Alliance Bernstein and we now have a corporate initiative called AB paperless. And it started at partner meetings where we decided all the meetings would be paperless. And we are now paying employees to not print. And I literally mean we're paying employees to not print. So we have a program by which we will give employees $400 to get an iPad, if they sign up for training and they basically sign a pledge not to print.

I've been to three clients, some of whom may be in the room and may want to speak to it, in the last two months, where they have to swipe their ID to print and part of it is security, but part of it is to make them more conscious of printing. And invariably all three say, it's a pain in the behind to print now. So with these kinds of initiatives in play and one very near and dear to my heart clearly with all this paper, I haven't subscribed to the AB paperless initiative yet and not sure I can. But how do we think about just corporate printing volumes going forward and I think some of the market research data would suggest that pages printed certainly in North America and potentially globally are now declining. How do you address that concern on the commercial side?
Dion Weisler: Just to pick on the data point there is slightly conflicting data around that, often what's used as a proxy is a number of pages that are sold out of paper mills and indeed that is on a decline. However, you've got much more capable machines now that are able to print full duplex, so the actual printing volume might not necessarily be going down. And I would say that like all things, tiny companies live on a spectrum, there is companies and industries that are very heavy printers and they're those companies that are on a lighter sides. There are companies that are looking to take out printing as a part of the workflow. And we work with all of those companies and in many places, we're inventing many of those technologies, you talk about swipe to print that was a technology that we bought to market with their management services. And our value proposition going into a customer in the early days of management services as well as this sound strange coming from a printing company, let us hope you reduce your printing costs by 30% and we would walk into these companies and we would introduce initiatives like tap to print so that you only printing what you needed because many a case was that users would sit inside the cubicle or their offices and as you print, they've never gone and fetched those pages. One, it presented a security concern and two its wastage. And so we said they ought to be a better way and we put those customers under contract and then we implied board based security systems that included tap to print. So we're not - we're certainly part of that, we're not naive and that it's not going to happen. But generally speaking we think that core printing is, let's call it minus one, plus one, flat, it's in or in about that range and usage behavior is not changing terribly. Having said that we think our job is to continue to make print relevant to make it easier and then to look for areas of growth through segmentation. It was one of the reasons why within the growth pillar of our strategy we looked to a natural adjacency in A3 printing because it's a $55 billion market and we have less than 5% market share as opposed to the other half of the market which is the A4 printing market that's also a $55 billion business and in many countries you have up to 60% market share. So we have these great business over here and natural adjacency over here that we needed to go and explore. If we can get just 10% incremental market share of that $55 billion business that's $5.5 billion of topline revenue and associated drop.

Toni Sacconaghi: So Dion, just in terms of thinking about that minus one to plus one and color pages printer or pages printing or growth of the printing environment. If we look back over the last six years, 24 quarters, I think supplies was down as reported in 22 of those 24. And so I guess the question is and I know you have a plan to get back to stabilization in the second half, but just looking backwards, if we look at that and say look you're 40% of the market and supplies have been declining for six years. And it feels if anything these trends are getting worse, what was different then where you losing share or was the market worse than and you expected to get better or how do we just reconcile the notion that at least qualitatively the printing pressures feel like they're getting greater and if we look backwards, which isn't a forward-leading indicator obviously that would suggest that you as a proxy for the market, we're certainly growing below that range you highlighted, how do we think about that?

Dion Weisler: So I think the best way to think about that is a milestone marker that took place 18 months ago, which is when we separated the company. And the whole genesis behind the separation was that as two smaller more nimble companies we will be able to focus on our particular market segments make the right investment calls that affect our company. And the printing business is annuity business. When we were part of HP Co $110 billion corporation, printing was just one of many, many business segments. Meg Whitman's first job there was to take out over $12 billion of
debt that we had on the balance sheet that was no small task. And so like a good general does you turn towards trios one of the things you have to fix more quickly than others.

And relatively speaking, printing and personal systems was in better shape than many other parts of the business. So a lot of investment went towards building software-defined networking, cloud, storage, all the things in the enterprise side of the business. And printing and personal systems was just kind of delivering a lot of cash to be able to make those adjustments at a more macro level for the company. Now you fast forward to where we are today, we wake up every day, we think about printing and personal systems, it's all we do. So whereas before if we have an investment dollar it might have gone elsewhere, today the single biggest investment that we make is placing a unit because generally speaking when we place units we lose money. And we make back money over time as supplies go into those units.

And so our job become getting our costs to an appropriate level relative to the market so that we could place more MPV positive units. You have to think about this business across these four dimensions, Toni, you and I talk about it a lot, the four-box model. The first part of that model is the installed base. If we are not building the right install base and doesn't necessarily have to grow, it just has to be the right shape and size some units print more than other units, they're getting the right shape of the installed base. Driving the right usage in that installed base through big data or understanding exactly which printers print more than other printers and driving the right programs to drive up usage, increasing our original HP supplies attached which is the third box. And then the fourth box being pricing. You pull all those leaves with all the programs and the investments that we have available to us that's what's dramatically changed since six years gone by. Those investments we're now driving back into our business.

Toni Sacconaghi: Dion, just quickly because I don't want to dwell on it too much. So you've talked about supply stabilization in the second half. So just to clarify, when investors are looking at that, you had about $225 million drawdown in each of Q3 and Q4 in supplies channel inventory last year. And so when we try and assess how things are in the second half of this year, we should be adding $225 million to the base last year.

Dion Weisler: Yes.

Toni Sacconaghi: So if you add Samsung and if we got to add 225, the Q4 supplies growth as reported should be enormous, it should be probably be double digit given the contribution you get from Samsung plus 225 million.

Dion Weisler: So for the second half, it's 450 and if there is a split between the two quarters roughly even, so I would say than that's right. I would say very minimal contribution that we expect from Samsung that is on track to close at the end of the year, but it's going to be closer to the end of the year. So I don't think that will have a material impact on the numbers. We also don't expect to be raising our inventory levels, so that's another correct assumption. And so after all of that, you should expect to see our supplies growth not in the double digits but in the mid-single digit range. But when we - another way of thinking about it is, if you would normalize all of that and take it all out, we expect to see stabilization in constant current by the end of '17, which is the commitment that we made quite some time ago.

Toni Sacconaghi: And you talked about the four-box model levers and one of them being supplies attach. Can you talk about the dynamics that you're seeing with re-man. We've estimated, I know these aren't your numbers, that you might capture 65% of supplies on the laser side and 35 might go to re-man and
we have estimated that you might capture 85% of supplies on the inkjet side and 15% might be re-man.

But how is that, what are you seeing in the re-man market, do you feel like that's been relatively flat those numbers over time. We've also started to hear some reports of some, I don't know if they're Chinese or other, but starting to make new cartridges illegally to compete with HP branded cartridges and whether you're seeing any of that obviously, you have a legal basis for suing them, but perhaps you can talk about some of the dynamics.

Dion Weisler: This is just a natural part of this industry. We operate in a competitive environment. There are certain non-original HP supplies that are perfectly legal and there are others that are perfectly illegal. And we will very aggressively pursue those that are illegal because we don't believe that's in the best interest of our customers. If a customer buys a counterfeited HP non-original cartridge, in my mind that's about the worst thing, we can ever happen to a customer because they paid good money for all of the technology that we've built into our product and it's been in some way compromised by that illegal activity.

But for the other part of the market, we've been competing against clones and remands for many, many years and I expect that will continue into the foreseeable future. There are three kinds of things that we do in order to ensure that we give our customers the best possible experience. And the first thing is, we keep refreshing our technology.

On average, a printer in the commercial space lasts in the market in the installed base about seven years and in the home market on average, it's about three years. If we extend out the portfolio and don't refresh it for ten years or 11 years, what happens is the clone alternatives out in the market get pretty good. And so the delta between an original HP supply and an aftermarket alternative is much smaller.

And therefore, we start to see the curve drop off in terms of our original market share. So the trick is to make sure that we're doing the right kind of technology investments at the right intervals to ensure that there is less capable aftermarket alternatives and you can't do it too early because you then haven't achieved the full benefit of the business model, which is a razor-razor blade model. So it's a very carefully inflection point that we monitor and track pretty carefully, but what is our north star here is the end customer experience. So that's the first lever.

The second layer is, as we change the supplies sales model we said that we would channel more marketing into our customer base so that we could market the benefits of original HP supplies and we're seeing some benefit from that already. And then the third area of course is to move from a transactional motion with a customer to a contractual motion with a customer, whereby we're signing a three, four, five, seven year contract with a customer and generally speaking when we have a customer under a managed print service contract or an instant ink subscription, supplies aftermarket share is much, much higher.

Toni Sacconaghi: And Dion, just in terms of the trend for remand, has it been relative -- like if we look back at the last ten years, did it get worse and now better, it's been flat.

Dion Weisler: It's sort of ebbs and flows, and we're always could be up 2 or 3 points and down 2 or 3 points, and we make adjustments and we introduce a technology. We've got JetIntelligence, it's a brand new technology. When we launched JetIntelligence, which is our new laser base technology, there are no clones available in the market, it takes a while for the companies to be able to make aftermarket alternatives. So immediately, your share goes up in all of those models and then over time it begins to diminish down again. But we're doing new product introductions all the time across our
ink-based products, and our laser-based products, different sub-segments of the market, which is what causes the almost sign curve in aftermarket.

Toni Sacconaghi: And JetIntelligence was just over a year ago in terms of the launch?

Dion Weisler: Correct.

Toni Sacconaghi: In terms of the A3 market, you alluded to that a couple of times in your remarks. So HP, I've been following the company for a long time and it feels like HP, I've sat this movie a couple of times before, historically it was with other people technology, notable difference now that you're going to be using Samsung's technology. But I guess historically the attempts that A3 have really been meet with limited success. And so the question is, why should investors believe that this time is different?

Dion Weisler: So I think it's a great question, it's a complicated question and if you drawing the, I guess juxtaposition back to what we've done in the past on what's different. And what should give you confidence, I would say that this launch is an incredibly thoughtful broad based launch of an entry into a pretty sophisticated, pretty established market. We are entrant number, I don't know, 12, 13 in a market that's been around for 20 or 30 years. And I think previous attempts at this space seem to underestimate the maturity of not only the players that were in the market, but the channels that were established in the market. And what we've done in the past is figured that we had a breakthrough technology, which was ink-based that we said we were going to go to the market, we're going to disrupt.

All of the other laser players within ink-based technology and it was Edgeline. This is a highly sophisticated market that you sub-segment it down into as many different levels as our A4 market is today. And you can't win a market with one product, it's physically impossible and there are many customers that over the years have been trained that laser is a better technology than ink is and we'll give you a better output than ink does.

Now, chemistry has changed a lot of that which is why we're having so much more success today with ink in the office. But there is still a sub-segment of the market if you want very high quality glossy kind of graphics output laser-based technology will do a better job. So what we did here is, we said well we have a homegrown organic very interesting compelling page wide ink-based technology, which is going to be great for some sub-segments of the market, but we needed our entire portfolio including very comprehensive paper handling capabilities for the rest of the segments.

And so, we went out into the market and looked for a disruptive technology and came across Samsung who are relatively new entrant into the printing market, who took it upon themselves to see how they could disrupt the other, mainly Japanese based photocopying companies. And they did an incredibly interesting thing. They developed a product that is really behaves more like a printer than a photocopy, a photocopy is a big complicated machine to get a screwdriver and break down the parts, you can end up with more than a 1,000 parts on the floor.

When you break down a Samsung A3 printer, you're going to end up with a couple of hundred parts on the floor. Now this business when you understand it and you talk to the channels, it's not about the cost of the machine, it's all about the cost per page and the cost to serve. And the cost to serve is where these guys make their money.

And so we found this incredible technology that we were going to do an OEM arrangement with, we already have an OEM arrangement that's how we're delivering the product today and we said this technology is so good, these people are so good, we want to buy this company and so we set
out with this acquisition of the Samsung business and we complement that with our organic PageWide, plus a lot of work that we've done for over a year now in talking to new channel partners that we've never dealt with before. The Venn Diagram is not mutually exclusive, but we have our existing channel over here and there is whole new channel over here and there is a little overlap. We're really ready for this launch and the product is being received incredibly well.

Toni Sacconaghi: So Dion, is the value proposition, we have something that is less intensive to service. Is that a value proposition for your distribution channel, which will mean they want to push it and that's why we'll be successful or is that a value proposition to the end customer and that's why it's going to be successful?

Dion Weisler: The answer is both. It's -- well, I guess the channel can choose what they want to do. The channel at the end of the day is going to have more margin. When they sell to the customer, and they can choose to keep that margin for themselves. Well, they can choose to get very aggressive and go and acquire more installed base of A3, they can split the difference, however they want to do it, they can do it.

But what it means for a customer is there's more uptime, because the machine to file is complicated, they're printing more of the time less truck rolls from the supplies and we're building all of the incredible security that we have in the world's most secure printers in our A4 platform into the A3 platform and a whole bunch of sensors that will allow the channel partners to do a lot of the service work without ever getting out of their office, they can do that over the Internet.

Toni Sacconaghi: And if -- as we -- so initially though, if the channel is going to have more money in their pocket, that's ultimately going to be over life, right? So there's -- I doubt if I'm a channel partner that I am going to discount the product initially, because I think you're going to save over life, so I'm going to wait until I see those savings, I'm convinced and then I'll discount. So initially, should we be thinking about the product being sold effectively at parity price? This is not designed to have an MSRP that's lower than competitors?

Dion Weisler: No. It's not designed to have an MSRP.

Toni Sacconaghi: Okay. It may ultimately be that way if the channel chooses to discount it overtime?

Dion Weisler: There is a lot of channel consolidation going on across the globe in this space and there is some partners that are gobbling up smaller partners and sometimes they do that by acquiring what they call, the MiF, the machines in field and so they might use that as a limit to go and grow their own businesses, but generally speaking, there's a lot of value in the technology and people don't like discounting just for the sake of discounting. So the MSRP's will be held high and that should provide really interesting incentives for the channel to think about HP is an incredible long term provider.

Toni Sacconaghi: So, Dion, when you acquire Samsung, the business today is much more A4 than A3. So what happened to that Samsung A4 business on a go-forward basis, given that you sell A4 printers today from Canon under the HP name?

Dion Weisler: So we will continue to have both products in in-markets. Samsung has done a good job of penetrating some emerging markets around the world and even some mature markets around the world. We think there is brand equity in that name, but we'll keep it for some time. But generally speaking, we will have the A4 portfolio of Samsung sitting at the lower OPP end of the price stack and the other products that we have in the markets at the higher end of the price stack, so that we're basically increasing our penetration of the price stack from low all the way to high.
Toni Sacconaghi: So should we be thinking about the Samsung A4 business getting smaller? I mean so Samsung, I think at the time of the acquisition, had $1.8 billion in revenue. Should we think about that as a starting point going forward or should we be thinking about, well, the A4 business will actually, because we're only going to keep the low end, will be dramatically lower one in two years from now, how should investors think about that?

Dion Weisler: So I think the best way to think about it is, once we complete, we will do a general update at the appropriate time, most likely the next security analyst meeting, once we've fully absorbed all the numbers. You know from talking to me in the past, I am not interested in share for share sake. I'm interested in profitable share and we need to take a very good look at all of the numbers, all of the segments, do all the market segmentation and figure out exactly what makes sense for this company, but we bought this company not so much for that revenue. We bought this company for the incredible number of patents that they have, the incredible R&D engineers. I mean Samsung is the company that the best engineering students in South Korea want to work for and so we've picked up the very best of the best here with an incredible portfolio of A3 printers that are just hitting the market now with all the associated paper handling, which is not easy stuff to do. That was the strategic intent of the acquisition and we will make all the right business decisions as we take the portfolio to market, stay tuned at the security analyst meeting for that.

Toni Sacconaghi: And Canon is not going to be upset that you're selling a HP -- the Samsung A4 would be branded HP I presume, because Samsung printing will no longer exist per se. So Canon is not going to be upset that you have a competitively branded, HP branded product to compete with the printers that they're providing you.

Dion Weisler: So our Canon relationship is 32 years old. I think it's the longest American Japanese relationship in history and it's a very, very deep relationship. I go to Japan many times a year and we meet with Canon, two very formal presidential meetings twice a year and our teams obviously meet much more frequently than that and this is an incredibly long partnership and on the one hand, they've been the closest of partners, the 32 years.

On the other hand, we've fought fiercely against them in the ink market for decades and so I think this is the best example of coopetition that's endured more than three decades. I was very, very, very transparent with Canon, with Mitarai, the chairman and CEO of Canon before we made the acquisition through the process and I know exactly what we're doing. We're growing our business with Canon. The business is doing great with JetIntelligence, we're very protective of the laserjet brand that we've built together and we will not encroach on that laserjet sub-branding.

Toni Sacconaghi: Okay. So we have about 16 minutes left. I still have quite a few questions to go through at the end. So I'm going to have to implore you do get into the Rapid Fire round as we progress. So on 3D printing, obviously a big initiative for you, you just have started to begin shipments of the printers. Can you help investors with the economic model of printing in terms of 3D printing, in terms of the supplies ownership and where the money is going to be made on hardware versus materials and how we should think about that?

Dion Weisler: Well, there are many places that we're going to make money in the 3D printing business. First of all, it's a very exciting long term business opportunity for us and for our investors. I characterize it in the future part of our strategy, I give the time horizon there 3 to 10 years plus. In 10 years plus, I think this company will be unrecognizable in terms of the composition of its revenue streams. Today, the 3D printing market is only a $5 billion business, relative to the PC business, which is $333 billion term. It's not interesting and I didn't get into it to be part of a $5 billion business.
I got into it to disrupt a $12 trillion business, manufacturing business and I think we can do that with a breakthrough technology. We're not following the traditional printing business model here, i.e., razor-razor blades. We're making money on the hardware, good money on the hardware, we're making money on materials, our materials plus materials that will come from third parties because we created an open platform.

We're making money on agents because we spray agents down on to the materials in order to form the object. We'll make money on our own agents and we'll make money on agents that are produced by third parties. All of those agents and supplies will go something through the best way to think about it is an app store.

So we will qualify these agents and these materials to be used with our printer and we'll get equipped for all of that usage that is used in the market. And then the fourth area is on service and support. There is a big service component of 3D printing. So it's a positive margin business across all of those four dimensions. We are broadly speaking in the commercial business and in plastics, both prototyping and short run productions today and in the future long run production.

Toni Sacconaghi: And if we think about the relative revenue profit split between steady state kind of long term, in traditional printing, it's kind of 100% profits are from supplies or more, how do we think about relative profit pools between hardware materials agents and service and support?

Dion Weisler: I would say that it's going to be much more balanced, however, it's rapidly developing around us and not everything is completely set in stone. As the market moves and we bring in more TAM, what we're going to end up doing is even bifurcating the way we think about the business. There will be a more transactional element of the business, where you're doing, you're printing 55,000 gear cogs and then there will be a much more specialized part of the business where we're printing a knee for your body and we're going to have a different value stack when we're printing a specialized part versus one way of printing commodity counterparts.

Toni Sacconaghi: Okay. Why don't we talk briefly about PCs? What's your base case assumption for PC industry unit growth over the next three to five years for the industry and how do you think about ASPs as well?

Dion Weisler: Well, through the five years in the PC industry, if we say where dog years, that's like a 21-year time horizon on the low side. So these things change pretty rapidly. All I would say is that this is still a large market, it's a $333 billion TAM and the way I think about that TAM is in two parts. That 180 million of that is core hardware and another 150 million of that is things like displays, accessories, commercial mobility services. That second bucket is higher margin than the first bucket.

There are declining parts of the first bucket and there are parts of growth in the first bucket and what we've been doing, I think, pretty effectively, is identifying the areas of growth in the market, those that have higher margin capability premium, gaming are good examples of that and going after the market. So broadly speaking, if I think about the total TAM, I think it's -- the second part of the market is in growth, it obviously was a little bit of a decline.

It kind of is there or thereabouts in the realm and I don't broadly disagree with the RTCs and others in the world. I would say that in the endpoint device market, there is a spectrum from smartphones all the way up to workstations and there is being times where there is being pockets of real growth, like in tablets. With tablets coming down, what's actually happening is that more and more people are spending more smoothly across that entire spectrum and I think that will continue.
Toni Sacconaghi: Okay. How much more concentrated can the PC industry get? So I think over the last seven or eight years, top five vendors have gone from 45% share to 70%. And so a lot of the reason why HP and Lenovo have fared okay is because there's been this big consolidation. And the question is, can that continue because that's been, I think the big players have been sort of flattish or growing, but the rest of the market has been a train wreck. And so how do you think about, is it really realistic to think the top five players will have 90% share or 85% share five or seven years from now?

Dion Weisler: I think that's unreasonable. I only look at those that are in the market, maybe the top four have two-thirds of the market, 65% and they grew about from memory, 3.9 points last quarter, the top four to 65%. So it's not unreasonable to assume that the top four or five could occupy 85% to 90%. I think it becomes only increasingly difficult in a more complex world where you have Windows, Android, iOS, Intel, AMD, Nvidia, you get all this complexity, different form factors, different types, you've got many, many more sub-segments than you used to have even five years ago.

If you're a subscale company today, the amount of R&D to participate in all those segments is huge and you don't have the revenue to support it. So that's why I think you're seeing the acceleration, it's off the complexity of end user compute demand across a very wide variety of form factors.

Toni Sacconaghi: Okay. About 8 minutes left. We'll go into the high rapid fire mode if we could. So just overall, I mean what's HP as the stock's value proposition for investors?

Dion Weisler: It's great. Next question. If you want a rapid fire. Listen, I think we've always said that this is a really predictable cash flow generation business and I expect that will continue, but what I think it has and what I think we're proving and will continue to prove as more and more investors believe is there is real opportunity here for long-term growth, whether it's in our more medium term growth initiatives of our graphics business, our A3 copy of market business or in commercial mobility, over the next two to three years or the three to ten years plus out with immersive computing and 3D printing, we'll continue to have a really optimized core. I think we're showing that we can execute in up and down markets where we've got real opportunity for growth for investors in growth in future.

Toni Sacconaghi: Okay. You talked about the stable cash flow value proposition. I think in 2015, you talked about normalized free cash flow being 2.9 to 3.2. This year, the guidance is for about 2.6. And you have about 200 million in restructuring. So do we think -- how do we think about normalized free cash flow at least this year it feels lower than that target range. So I guess is it really all that stable and how do we think about normalized free cash flow relative to the range that you talked about.

Dion Weisler: Well, we said this year, the guide this year is 2.3 to 2.6, we've said consistently on the last couple of earnings calls that we expect to be at the higher end. I gave you that range. So you gave us the 2.6. You'll recall from '15 to '16, we had a 10-day improvement in cash conversion cycle, which we highlighted would not repeat itself in '16 to '17, that is the single biggest, largest headwind in that compare. But going forward that you should expect cash flow to be in line with earnings growth.

Toni Sacconaghi: So does that mean realistically we should think about the cash conversion cycle, which I think is about minus 30 days kind of staying at that level? I mean obviously it will go up and down between quarters?

Dion Weisler: I think we've built in real sustainable processes into the organization. The thing that will affect the cash conversion cycle more than anything else is the mix between print and PCs, as the mix of
PCs goes down relative to print, so does pressure go on to cash conversion cycle because we have an incredible negative cash conversion cycle on the PC business, which is why we like it relative towards the OP that it brings in relative to print. But print obviously has a much higher cash conversion cycle than PC. So as that mix changes, that's what will affect that minus 30 odd number.

Toni Sacconaghi: And you talked about normalized free cash flow kind of, the growth being in line with earnings, but should we be using '17 as kind of a base year. So as you grow off of '17 in that 2.6 number or is the 2.6 number distorted in any way?

Dion Weisler: I'd say the 2.3 to 2.6 is how you should think about the baseline.

Toni Sacconaghi: When we think about capital allocation, this is actually one of the questions that we got. Today, HP is using more of its free cash flow to buy back shares than to pay dividends in absolute dollars. Which do you think investors care more about and how do you think about capital allocation, why not return even more if the cash flow is so stable as you alluded to?

Dion Weisler: So we've always said that capital allocation policy is 50% to 75% would be returned to shareholders either in the form of dividends or share repurchases. And as we said in our first year out, be at the high end of the range, you see we said at the higher end of the range and we think broadly we're on track to that, but we think there is a lot of opportunity within the markets that we're operating in today and that we want to reserve the right to be able to accelerate our strategy with M&A that makes absolute sense.

And I think Samsung's a great example of M&A that makes absolute sense to accelerate the strategy that we wouldn't be out there with broad based M&A that didn't leave somewhere on the strategy page. It ought to be recognizable. With regards to, well, therefore, how do you, in the portion that you were turning, how much do you do on dividends, how much do you do on share repurchases and what do investors think, the answer is it depends on which investor you're talking to.

Someone share repurchases, others want more dividends and there is a real mix. And so what we've said is that dividends will grow in line with earnings. We took it up higher than that in '17. We took it up by 7%. We said that that we did that because we had confidence in our ability to execute the business, but broadly speaking, that's how you should think about as dividends growing along with earnings.

Toni Sacconaghi: Great. Well, Dion, given you have very stable cash flow and you have sort of very minimum net debt, I guess the question is, why couldn't you commit to returning more knowing that if you have relatively stable cash flow, your optimal capital structure is probably not having no debt, how do you think about an optimal capital structure in terms of a debt balance and given that again if you have conviction and predictability of your free cash flow, why couldn't you have a higher capital return and a target amount of debt on your balance sheet.

Dion Weisler: Well, that's why we've given the range of 50% to 75%. We do think M&A is an important part of our strategy going forward and we've been very open and consistent with that statement. We've been at the higher end and that range I expect will continue and we'll give further details at SAM. With regards to debt, we think it's very important that we have the right kind of credit rating, particularly as we're moving to everything as a service that's required from our customers and don't forget that we have much of our cash offshore. And so having the right debt capacity onshore to be able to continue to run the business is an important variable that we need to play with.
Toni Sacconaghi: And how big an acquisition would you consider? Are there any limits?

Dion Weisler: Well, there is always limits. I would say that we would be on the more modest side of what I think is modest anyway. I think Autonomy is not modest, so I wouldn't expect to see anything of that kind of scale. I think Samsung was a low to medium size acquisition. If you're looking for a relative lead point.

Toni Sacconaghi: And then another question that I received from the group, can you share your thoughts on the increasing use of AI and how HP is going to be competitive in this field?

Dion Weisler: So AI is indeed an important part of technology, no matter what part of technology. It might not be as apparent in the kind of products and services that we bring out to market, albeit I think you'll see it visibly in our personal systems side of the business, some of the work we're doing with augmented reality and AI will start to show itself, but we use it every day in our products and I'll give you just one example inside our 3D printers. One of the biggest challenges we have is thermal control and writing algorithms to monitor and conduct thermal control is very difficult. So we need machine to machine learning to be able to do that for us on the fly. So we have very complicated AI algorithms built into many of our products in order to make those products differentiated better.

Toni Sacconaghi: So final question, Dion. What are the two things you worry most about and what are the two things that you think are most underappreciated by investors?

Dion Weisler: So I'm paid to worry about just about everything. So I worry about competitors every single day and more so the competitors that I don't know about. I can anticipate what a Lenovo, or Dell, or Xerox, or Re-Coat will do, but I don't know what's coming out of the next garage in Palo Alto or Israel or somewhere else in the world. So I think a lot about that and I try to find out as much about that as possible. I think what's on everybody's mind is we've got a very broad macroeconomic environment right now. It's very fluid and having the right tax conditions, having the right framework for trade, we operate in 170 countries around the world, we're having that right platform is something that is important for us.

What I think is underappreciated is incredible strength of the HP team. I got to tell you they are working tall and proud, they're feeling really good about this company. We are doing incredible things in our labs that aren't yet even public that we feel really excited about. I think not everyone yet has fully understood that we have a core business, but we've got this really exciting growth area that we're working on. Our graphics business I think is underappreciated. I think in terms of the value that we get for the breakthrough technology we have in 3D printing is underappreciated today and that's okay because it's not yet a big part of our revenue, but as it shows up and as you see more come out in 3D printing and some of the other areas of our graphics business, which is already a sizable business, is under appreciated.

Toni Sacconaghi: Great. Dion, thank you very much. Thank you for joining.