HP Inc.

March 1, 2017
11:45 AM EST

Katy Huberty: Good morning, everyone. I'm really pleased to welcome Dion Weisler, CEO of HP. He took on the CEO role upon the separation of HP Inc and Hewlett-Packard Enterprise. Before that, he was head of HP's Printing and Personal Systems Group and has spent 25-plus years in the technology industry at companies like Lenovo and Acer before coming to HP in 2012. So Dion, thank you so much for your time today.

Dion Weisler: Thank you, Katy. Great to be here.

Katy Huberty: So I want to start, just given that a lot has happened over the past 15 months with the separation, what has surprised you, either positively or negatively, as you've become a smaller, independent company?

Dion Weisler: Well, I think the surprises on the upside and the downside are actually quite linked.

On the positive side, I would say the biggest surprise -- it was always the thesis that we would be able to be more flexible and faster, be more agile; but I didn't expect it would be at the pace that we've been able to do it.

So I've been surprised at how quickly the organization was able to rally behind the strategy, execute a year last year that was a pretty tough year, as we set out as a new organization.

If you would have asked me at the beginning of our time as a new company would we have taken $1 billion of cost out of the business, more than $1 billion -- well in excess of $1 billion cost out in the first year; that we would have completely refreshed the Printing and Personal Systems portfolio; that we would have launched and delivered our first 3D printers; that we would have acquired Samsung for $1 billion, I would have said you were crazy, you can't get that all done in a year. But we did, and more. And so I was surprised by how much we were able to prove the thesis of separation.

And I would say on the downside, part of being part of a $110-billion corporation in the old company was that, if you had a soft quarter one quarter in PCs or in print, it was often masked by an upside in servers or storage or networking.

And there's nowhere to hide in a smaller company. You have to be firing on all cylinders. It's like, your green vegetables are good for you. Even though it's harder, it makes us a better company.

Katy Huberty: Yes. So at the analyst day in October, the message was reinventing HP, and a path to stabilization. You've clearly been on the path the last couple of quarters. But what are the keys to achieving sustainable stability, and is it really about stability, or do you see a path to long-term growth for this company?

Dion Weisler: Well, I do see a path to long-term growth, and I've always said that a growing company is a good company, so I think it's an important part of an organization. Otherwise, mathematically, eventually you end up landing at zero, so you do need to grow.

And I think that the answer really lies and is anchored in our strategy, which is multidimensional, both in terms of products and innovation, but also in terms of time.

And we characterize the strategy, as we laid out at the security analyst meeting two years ago, and we reiterated again last year because the strategy has not changed -- the tactics might change -- but it's thinking about our time horizon over multiple years and the core -- the first part of the strategy at the core that we're in today, Print and Personal Systems.

And we have to be excellent in the core, and there are elements of the core that are somewhat in decline, and we recognize that, and I think it's important to recognize it. But we also know that within the core, there are pockets of growth. And we're really focused on segmenting the market and finding those pockets of growth.

But just operating in a core in mature categories is not enough. We ought to think about how we're going to grow over the next two to three years. And so that's the growth pillar of our strategy. And we really only articulated three areas. And I think that's also important. You can't have too many, or you'll end up sub-optimizing them. And there were three.

We said we wanted to get into the A3 copier space, because it's a $55-billion market that we're sub-optimized in -- thank you -- and we have less than 4% market share of -- of that market. It's a natural adjacency. So we wanted to be strong there.

The second was our graphics business, which has been really strong for us, and it's a growing part of the market, and we're market leaders, so we wanted to double down there. And the third area was commercial mobility. No one really owned that space.

So that sort of enables the organization to rally around actual adjacencies and over the next two to three years really elevate our position there.

And then the third pillar of the strategy is the future, it's the next three to ten years out, and that's where we talk about blended reality, immersive computing, 3D printing. We didn't get into the 3D printing business to be part of a $5-billion industry. We got into it to disrupt a $12-trillion manufacturing industry.

And when you execute that strategy over time -- what you're seeing play out right now is, better execution in the core. But when you understand the entire strategy, you actually understand that we will deliver really predictable cash flow to our shareholders, but we'll also provide them with opportunity for long-term growth.

Katy Huberty: You mentioned that last year you overachieved your goal of $1 billion of cost savings and you're looking to take another $1 billion out this year. Where do these savings come from, and how do you avoid cutting too deep? Because your sister company last week essentially said we've cut to the point where we need to stop and focus on reinvesting.

Dion Weisler: I think you are always able to, in this industry, at least in my 25 to 30 years of experience in the PC business and over the last 5 years in the Print business, understand that these businesses require constant sharpening of the pencil. You need to continue to go to the gym every day and get fit and raise the bar.

And there's no magic pill. There's work to be done in portfolio simplification. There's work to be done in breaking down the bill of materials down into the capacitors, the copper, the components, the [axes], the chips, the software, and finding and shaving off the cents. And cents at a time multiplied by millions and millions and millions of units adds up.

It's about transforming workflows. This is an area that we're focused on right now but also into the future. Our IT systems today are the same IT systems that we used to ship products back in 1985. And therefore we've done a number of acquisitions since then [they're quite dated systems], and all the processes that we run to keep those systems up and running are heavy and complicated. And as we invest in our new ARP system, we'll be able to change workflows. You change workflows, that provides opportunity.

So there's many -- it's not a really simple thing. It's about understanding your entire business end to end, the supply chain, the logistics, and shaving off dollars, cents, taking out non-revenue-generating expenses out of the business, and channeling them towards R&D and other investments that make sense.

Katy Huberty: You talked about executing better in the core business, and both printers and PCs across every region really performed well last quarter. Now there's some quarterly stuff -- the Chinese New Year created maybe a little bit of a pull forward -- so perhaps 2Q isn't as strong. But in this pretty favorable market environment, better execution, how should investors think about your mindset of flowing through that upside versus reinvesting the EPS upside that might come on the back of those dynamics?

Dion Weisler: Well, first is to just kind of understand that our business as a whole generates the vast majority of its profit from our Printing segment and that our Printing business is an annuity business. It's a razor/razor blade model.

We lose money, generally speaking, when we place a unit. But if that unit is placed in the home market, it'll yield supplies, on average, for three years. And if it's placed in the commercial market, it will yield supplies for the next seven years, on average.

And so therefore what we do in any given quarter can have an impact on the P&L of that particular quarter and be a drag on the P&L from a rate perspective. But it translates to goodness for many, many years to come, as long as that cost structure is right and we're placing positive MPV units.

So what I think you can expect from us is that we'll continue to execute that. We said that as we see opportunity in the market, if we have the opportunity to place positive MPV units that will yield supplies for multiple years, that our shareholders would actually want us to do that and that it makes sense from a business perspective to do that.

In the PC business, there's always sort of ebbs and flows in the tide. And we look at -- each quarter we look at the competitive position we have. We don't chase share for share's sake. We're incredibly disciplined and we've got this down to a fairly fine art now where we decide exactly where we want to play and where we don't want to play. We have a strategy that we're looking to execute on that delivers better return for our shareholders in the long term. And if that generates cash flow and that generates the ability to place more MPV-positive units, then we'll do that, as well.

Katy Huberty: Yes. Speaking of free cash flow, last year you generated $2.8 billion. That was well above the guidance going into the end of the year of $2 billion to $2.3 billion. This year, you're talking about getting to the high end of the original guidance you gave, which was $2.3 billion to $2.6 billion. So that's down a little bit year-on-year despite less one-time items and despite getting off to a really good start in the first quarter. So what are the risks or pressures on free cash flow that land you at $2.6 billion versus where you were a year ago?

Dion Weisler: So we guided at the security analyst meeting $2.3 billion to $2.6 billion. And after the Q1 earnings call, we set it given where we landed in Q1, it's appropriate to guide -- it would be toward the higher end of that range.

There are some things that happened in quarter one. It was a seasonally stronger -- we had a really strong Q1. PCs were up 10% year-over-year [as reported] or 11% in constant currency. And as a result of that, with the strong Black Friday that we had, some of the initial ships into Chinese New Year, it created a bit of a headwind on Q2 to the normal sequentials. And so we expect that will be a little bit of a drag and so there won't be as big a delta between Q1 and Q2.

In addition to that, we expect that the cash-conversion cycle may be down fractionally off the back of a stronger Print business relative to the PC business.

Recall that the PC business operates at a really negative cash-conversion cycle. And while cash generation for Print is good, when you do change that mix, it does change the dynamics of free cash flow.

So I think those two sort of characteristics put us in that range of the $2.6-billion mark. And the reason that we have confidence and that we reaffirmed is that the actions that we took to realign the supply business model to go from push to pull is driving better linearity. And with that better linearity should come more consistent cash flow.

Katy Huberty: You've talked about returning 50% to 75% of cash flow to investors. Similar to the question on earnings -- to the extent you outperformed again this year, your expectations on free cash flow, should we expect a greater percentage of that upside to be returned? How do you think about that?

Dion Weisler: So I think, broadly speaking, our position hasn't changed. We said we would return on an ongoing basis between 50% to 75%. Last year we said it would be at the high end of that range. This year we said it would be on the higher end of the range.

And if we generate more cash, then we always take a very returns-based approach that unlocks the best shareholder value. And we'll reassess it at the time. But expect us to be at the higher end of the range.

Katy Huberty: Okay. So I want to spend a fair amount of time on Printing, because this, as you said, drives the majority of earnings for the Company. And a key part of the HP story right now is getting printer supplies to flat growth versus declines by the end of this fiscal year. So talk about what the elements are of the four-box model that gives you confidence in that path to achieving supply stabilization?

Dion Weisler: We first introduced the concept of the four-box model to the market when we separated the Company. We've been operating in this four-box model for many years. And it's a method that -- it's just a model, like all of your models. You've got very complicated models. You have some assumptions. You've got some trailing data. You've got some data that looks forward.

And we have all that data, as well. We have an incredible amount of data. Our printers in many cases phone home, sending us all sorts of information about usage. We know what the install base is. We know what we plan to put into the market. We know what the analysts are saying the market size is going to be. And we put all of that information into this model, and we call it the four-box model because it has four drivers.

The first is the install base -- what is the size of the install base? And I don't want anyone being too fixated on -- you know, does the install base have to grow in order for you to have positive supplies? Well, the answer is actually no, because not all units are created equally.

I can place one home-based unit, and I would actually have to place 200,000 of those units to equate it to the same amount of supplies that one of our graphics printers drive. So not all printers are created equally, and we take one printer and place this printer in New York, place the exact same printer in Bangkok, and that will yield different supplies, which is the second lever. It's the amount of usage or the amount of printing that's done on that particular printer.

The third lever that we have is, how much of original supplies is purchased against that printing unit. Not all supplies around the world are original HP supplies. But our job is to explain the benefits of HP supplies to our customers. And the better job we do of that and the more supplies we get, that's a multiplier for supplies (inaudible) as well. And then the fourth is, what price does HP charge for either ink or toner.

And so that model has been very predictive for us, and we have a lot of confidence in it. We went back well over a year ago and said, this model is telling us that when we execute the way we plan to execute, that our supplies will stabilize in constant currency by the end of 2017.

And granted, I understand not many people believed us back then. You were actually probably one of the few. And that's okay, because we were a new company. We had to prove ourselves. We had to drop a dollar in the trust bank every quarter.

Now, as we get a little closer and we start seeing that supplies is only down to 3%, whether it's as reported or constant currency -- 2% in constant currency -- people are starting to believe that it's actually within sight.

And we remain confident that as we do all of the actions that we take in our Printing business, we'll affect one of those four boxes. And as we take those actions, supplies will indeed stabilize by the end of 2017 in constant currency.

Katy Huberty: Now, you brought up the fact that people worry that the install base has been declining and that's part of the reason why people didn't believe the supplies story. But you have turned around hardware. Hardware units were declining 20% if you go back a year ago. You've seen growth in recent quarters. So how important is that growing placement story to achieving the goal?

Dion Weisler: Well, it's an accelerater. If you have more MPV-positive units in the plan that are all yielding supplies, then it's going to get you there faster than if you didn't have it and you were just relying on the other three levers.

So there comes the important initiative that we drove to take that $1 billion of cost out of the business. Because if we get that underlying cost out of the business, we have the potential to place more positive MPV units. That's what we did.

So after Q4 of last year, on the earnings call we said -- listen, we're going to go to work. We expect this competitive environment is the new norm. We're going to take this cost out of the business. We want to place those units. We're not placing share for share's sake. There has to be positives. That's rule number one. And then when we place it and we go from negative 20 to negative 16 to negative 12, I think it was, or 10, and then now we're plus 6, it makes a difference. And that's just off the back of the [cost] work that we were able to do.

Katy Huberty: MPS and graphics are two businesses that have been growing for the past three-plus years. And so how important are those in terms of driving sustained growth in supplies longer-term?

Dion Weisler: Well, they're really important. Again, the answer always lies back in the four-box model. MPS is important because when we sell a managed print service contract, we're guaranteed box number three, which is the supply share. We're guaranteed 100% share of aftermarket supplies, as opposed to some lower figure that we have scattered all around the world. So MPS we recognize is a core initiative for us to drive many years ago, and so we started to build that (inaudible) capability.

As it turns out, there is a growing trend around the world to move from transactional based [motions] to contractual motions, which of course fit very nicely into MPS.

Our team managers today want to focus their precious resources on changing their workflows and moving to cloud. And while Printing and Personal Systems is important to them, it's not necessarily important for them to own and operate it.

And so they're looking to us to provide that service for them. And they're now looking for us to do it for personal systems, as well. We're building a really nice practice around desktop as a service, one of our fastest-growing pipelines.

So that's important for that reason. And it also means that our customers are much more closely aligned with us. We're talking to them every day. We're embedded in their business. It's a stickier relationship with the customer.

Graphics is important because it drives box number two. Box number two is, how much ink are you using, or how much toner are you using. In the case of our big graphics machines, they're not little itty-bitty cartridges of ink. They're great big, literally barrels, of ink, and we love them.

In the graphics business, page impressions are going up. And there's another dynamic that's happening, is that customers are moving from these analog technologies to digital technologies because it enables them to have a much more intimate relationship with their customer.

The Share a Coke with a friend campaign is a great example of that. We were able to print a Coke can with hundreds, thousands of different names all around the world. You couldn't do that using old analog technology because you'd have so much wastage.

There's not many Dions around. You can share a Coke with Dion because you can print a label of 10 or 20. And that then enables those customers to have a more intimate relationship with their customer. It was an incredible sales [lift] for Coca-Cola. And we're seeing many other companies leverage digital printing in the same way.

Katy Huberty: Now, comps get easier in supplies as you get into the summer months, because a year ago you chose to move towards this pull away from a push model. You lowered channel supplies inventory. Are you happy with where channel supplies inventory is today, and does that, in fact, increase your confidence in reaching that supplies target, given the comps do get easier?

Dion Weisler: Look, I'm really happy with the decision we took around the supplies change model. I think it was a very important change for us to make. It was a big investment for us to make.

I remember discussing it in great detail with Chip Bergh, who sits on our Board. He's the CEO of Levi's. And so what the hell does the CEO of Levi's know about Print supplies? But he ran Gillette's business for many, many years, and this is something they did back at Gillette. They moved from a push model to a pull model. And I want through all the learnings that they had taken out of that experience, which was terrific for them.

And we're seeing the same benefits. We're seeing unbelievable linearity in our business now, as you would expect, because we're really on fulfilling when there's true demand. We narrowed the ranges, and we lowered the ranges, and we're operating within those ranges. They were down significantly year-over-year, and they were also down a bit sequentially, as well.

So I'm happy with where they are in the ranges, but I'm even happier with the business outcome. And the business outcome is all about predictability. In a sales channel, it's actually pretty complicated and becoming more complicated.

We're frustrating less partners, and we're certainly frustrating less customers. We're able to spend our [contra] money and channel it towards marketing to drive original HP supplies. So all sorts of benefits.

And, yes, you're right. Our comps do get easier off the back of that. But we're holding ourselves to a very high standard. We said that we would stabilize supplies by the end of 2017 in constant currency without those actions.

So actually what you should expect [us to do is] we'll grow supplies when you just look at the absolute level. But we're holding to our original standard.

Katy Huberty: Okay, understood. So the A3, more copier-oriented market, isn't necessarily a driver of supplies this year because you're just getting into that market in the spring. But it certainly helps to extend the story into 2018 and 2019 if you're successful in placing A3 units. What are your market-share goals? And talk a little bit about the different go-to-market in A3 versus A4.

Dion Weisler: Again, this is the second pillar of the strategy. It's the growth pillar of the strategy, and it does not have, to your point, the immediate impact in the quarter of this year. We have to place those units for them to start yielding supplies, and that's why I have that time frame of the next two to three years, they become actually an important part of the overall Print business and the franchise.

For us, the A3 market represents a tremendous opportunity. It's a $55-billion market. It's a natural adjacency. It is in Printing. We've obviously made the acquisition of Samsung's business, going to give us verticalization of technology, and I love that. I love having differentiated technology, and this really is very differentiated.

And 4% market share is not a place we play in very often. I can't think of any other business where we have 4% market share. When I look at our A4 Printing business, in many countries we have up to 60% market share. I like those numbers a lot better.

Now just imagine if we were able to take an incremental ten points of market share, went from 4% to 14%. Well, as a $55-billion business, that's $5.5 billion. I'm not a mathematician, but I can do that math (laughter). That's $5.5 billion of top line and the associated operating profit that drops with it.

And generally speaking, another good thing about this business is, it's almost exclusively under Managed Print Services. So the aftermarket supplies is very strong.

So for all those reasons, those strategic reasons, we made that acquisition. The channels have a bit of a Venn diagram associated with them. If we think about our A4 channel over here and the A3 channel, they used to be very separate. There is some overlap now, and we'll certainly leverage the overlap in the Venn diagram.

But we've been working, knowing that this has been coming for over a year. I spend every two weeks, painstaking detail, country by country, on readiness for A4. We know who all the players are. We're talking to all the major A3 channel partners in all countries around the world. We're building detailed plans.

What's my expectation? The first thing you have to do, the first milestone, is you've got to get to 10%. I don't think if you have -- if you're below 10% market share in any market, you're not relevant. And so you really want to get to a 10% market share. But I would expect that from there, we will continue to ramp that.

Katy Huberty: That's great. Another long-term growth strategy you talk about is 3D Printing. Tell us how HP is differentiated, because there's a lot of players in the market, not a lot have had much success in terms of building a sustainable model. How are you approaching the market differently?

Dion Weisler: So there's a very interesting book that I read many, many years ago called Crossing the Chasm. And it talks about early adopters and then some market forces that pull an industry through a chasm and create a much bigger market. I was able to see that happen in the PC business, and I'm looking forward to that wild rush again here again with 3D Printing.

Our technology is fundamentally different. It leverages more than 30 years of thermal inkjet from our core, and we're into our fourth generation in development, our fifth generation of thermal inkjet at the moment. This is difficult to do, and it's all about microfluidics.

Our Printing business is a microfluidics business. It's about pushing ink today through tiny little nozzles. On a print bar this wide, there's 40,000 nozzles that spray a billion drops of ink per second with 21 microns of accuracy.

And what we were able to do is take that same technology and apply it to 3D Printing. And this is a novel approach that's never really been done before.

Most of our competitors, they either extrude -- you know, sort of like a toothpaste tube -- a 3D part on an X-Y axis. Others use a laser to fuse layers of materials. And all these technologies are relatively slow or they have trade-offs in quality.

Multi Jet Fusion, on the other hand, is looking to solve three fundamental problems -- speed, quality, and cost. And with the first installations that we've done at Jabil and Shapeways in December of last year -- what our customers are telling us is that we were right.

We (inaudible) the promise of speed, quality, and cost, and we're changing the economics of how they actually operate their 3D printers for short-run production rather than just prototyping.

The problem is today, if we were to take a part -- let's say we wanted to make this part here. If we were looking to 3D print this part, if you wanted to print less than 55,000 -- make less than 55,000, it would be cheaper to print it. But if you want to do more than 55,000, injection molding is a much more economical way to do it.

Why is that so? It's really the cost of the materials. When we injection-mold something like this, the raw materials, the raw plastic, is about $10 a kilo. And it comes in these beads, and the beads aren't good for 3D printing. You need to grind those beads down into a fine powder. The cost of grinding those beads down into a fine powder, the process, costs about $3. So it should -- the raw cost should be about $13.

The market price for this material today is $80. There's an enormous profit take in there that we need to compress, and it's [in controlled figures] that are stopping that, negating that from happening.

Now if we can get that cost down to, let's say, $20 a kilo, the print run would go from less than 55,000 being economically advantageous to 1 million. That grows the size of the market.

The problem with the industry in the past is that [they weren't able] to print at that speed, and it wasn't able to get the cost down. We think we can do both, and that's what's going to trigger and pull through the chasm to create a much bigger [TAM]. That's why we're excited by it.

Katy Huberty: So you shipped your first 3D printers in this last quarter. When does this become a bigger contributor to overall HP --?

Dion Weisler: Again, look to the strategy [and I'll say it to the] third pillar is really about three to ten years. So I would say in that sort of -- in that midpoint of that range is when it becomes a material part of this company.

And I think longer term, as I look out into the future, when I'm bouncing my grandkids on my knee one day and I'm telling them what we did, we'll look at what we would have done in 3D to democratize manufacturing will be quite remarkable.

Katy Huberty: Just shifting to PCs for a couple of minutes. Investors viewed this as a declining, low-margin business. However, you've been able to target areas of growth, areas that carry higher ASPs and margins and to really close the gap with number-one player Lenovo. So talk about what are the biggest areas of growth and where do you see innovation in PCs going forward?

Dion Weisler: First of all, let me say the prime directive is not to become number one. The prime directive has always been -- I've consistently said this since I took over the Printing and Personal Systems business four to five years ago, that share for share's sake to me is a Pyrrhic victory and that our success will be defined over taking profitable share.

So job number one is, just like in Printing, get the costs under control. When the costs are under control, you're able to channel your investments into innovation. And it's innovation that enables you to break away from your competition and enables you to play where you want to play and unlock shareholder value. So that's how the business is operating, and it's consistently operated that way for many, many quarters now.

But what we also do is, we segment the market, we segment it again, and we segment it again. People talk about the demise of the PC business -- we've got to put it in perspective.

Everyone is excited about 3D Printing. It's a $5-billion business. The PC market is a $333-billion business. It's a huge market. And, yes, it's a mature category, but it's also a consolidating market. So you can also grow by taking share from the smaller players. And you do that through innovation, through sprinkles of magic in your technology that give a customer a price function value advantage by choosing a HP over a competitor.

So that's what we remain focused on. Half of that $333-billion market is not what most people think about what you're working on now, laptops and desktops. It's actually things like workstations and thin clients and services and monitors and display and accessories.

We're [under ending] in that part of the market. That part of the market typically comes with higher margins. And so we're focused on growing ourselves there and also defending the core part of the market, the other 50%, and just adding those sprinkles of magic, focusing on premium, focusing on gaming, segmenting the market into areas that we believe we can add differentiation. And when we provide that differentiation, our customers reward us.

Katy Huberty: The headwind in the PC market right now is commodity costs, so getting your hands on components, as well as the price. I guess two questions here. One is, what do you expect to be the demand impact as companies like yourself raise prices to pass through those costs? And then what has HP done to put itself in a position to have more access to those components?

Dion Weisler: So I think we actually called this tightening earlier than most of our competitors.

Katy Huberty: Right, last summer.

Dion Weisler: We called it last summer. And when we saw it happening, we went out and we struck some long-term supply agreements. So I think we were ahead of the game there. We saw that manifest itself in our last quarterly results.

So I'm feeling good about our ability to maintain supply. But you are right, the commodity costs are, indeed, going up. And we've passed on many of those cost increases on to customers, who --

it's just not sustainable [to operate]. We think most of our competitors will move that way, as well.

Now, that could impact demand a little bit. We mentioned that on the earnings call. We're just going to have to watch the demand space a little bit. It's -- obviously, the market did better than the pundits had thought last quarter. The market was actually up 2% in revenue. We were up 10%, so we took an 8-point -- or an 8.5-point premium to the market, which we like. But we did it in a profitable way.

So this is a fine balance, a fine dance, continuing to try to take costs out of the back end and try to get better pricing on the commodities that aren't as much under pressure. There's really three key commodities that are under pressure. But we have to watch the demand signals from customers as the impact of the price increases flow through.

Katy Huberty: Okay. Let me stop there for a second to see if there are any questions in the audience. Otherwise, I'll keep going. Any questions? Okay.

I wanted to ask you about tax reform. So nobody really knows where we end up. There's only so much work that you can do before you know the final answer. But one of the discussions around how you fund a lower corporate tax rate is border adjustment. And that is a disadvantage for companies with supply chains in Asia. So just from a big-picture standpoint, how do you think about the seriousness of HP potentially rethinking the supply chain if that ends up being the answer on tax reform?

Dion Weisler: Clearly, we have incredible teams [up inside] the organization [scenario planning]. But it's a little difficult to chase ghosts. And so I think what we are exercising here is strategic patience. We're obviously keen to work with the new administration on their tax plans as they begin to make them more visible to the rest of us.

What I would generally say is that we're opposed to anything that doesn't encourage international trade. We operate in 170 countries around the world. I was encouraged to hear the President last night. He was also in favor of trade and fair trade. We also believe in that.

As far as the BAT goes, it's very difficult to comment because we don't know any details. Broadly speaking, we think that would have an effect where it would continue to raise prices and that would potentially impact demand. But we will be ready. We'll be ready to respond as things become clearer. We'll also be ready to input into the new administration to help them understand how this particular industry operates today and what the impacts would be.

Katy Huberty: Okay. So last question. We talked a little bit about the Samsung acquisition. It was a $1-billion deal, very [digestible]. You picked that up at 0.6 times EV to sales. So it was very attractive valuation, even compared to other printing acquisitions last year. Gets you into this $55-billion adjacent market. It makes a lot of sense to investors. Are there other deals like that potentially in the pipeline, and how important is M&A versus continuing to increase the dividend and returning cash through share repurchase?

Dion Weisler: Well, we always said that M&A is an important part of our strategy. But we also said that we aim not to surprise anybody. And I don't think we surprised anybody with the Samsung acquisition.

I said that when we do M&A, it's going to live somewhere squarely on our strategy page. It's only a simple page. You can kind of pick it up. It's in the public domain. And any M&A that we're going to do is going to be in support of that strategy.

We obviously look at it. We run a returns-based approach. Thank you for recognizing, also -- I think it was a great deal, not just from a financial perspective. It unlocks 6,500 patents for us, 1,500, I think, of the best engineers on the planet in the laser area to be found.

I mean, these guys have done amazing work, some of the freshest work in the industry, because it's the newest technology. They went from nothing to a player that had 14 competitors. It's not easy (multiple speakers) number 14 and actually get somewhere. So this is an impressive company. I actually go from here to Korea to be with the team over there, as well, after I leave here.

So there are all the reasons that we did that. Expect that M&A will be part of our approach. We'll always take a returns-based view of things, and we'll always do something that lives on the strategy page.

Katy Huberty: Okay. We're out of time, so we'll leave it there. Thank you so much, Dion.

Dion Weisler: Thanks, Katy.