# HP Security Analyst Meeting

(video)

(piano music)

**Narrator:**
It's something you're born with and lives inside you; inspires the things you choose to do; things that may not always change the world in a big way but can change it in a million little ways. You do what you do because it matters. At HP, we don't just believe in the power of technology, we believe in the power of people when technology works for you to do the things that matter -- to dream, to learn, to create, to work. If you're going to do something, make it matter.

(video ends)

**Unidentified Participant:**
Ladies and gentlemen, please welcome Rob Binns.

(applause)

**Rob Binns:**
All right, good morning, everybody, and many things for coming. Welcome to our Security Analyst meeting.

I'm going to kick off the event, and then we'll run through the agenda here. Meg is going to come up and lead out followed by Cathie Lesjak. After Cathie, we will start beginning an overview of each of the segments. Mike Nefkens and J.J. Charhon will come up and talk about the Enterprise Services business. After a short break, Todd Bradley and his team will come up and talk about the Printing and Personal Systems business followed by Dave Donatelli, who will talk to you about the Enterprise Group. We'll take about a 30-minute break for lunch and then after that George Kadifa will come up and discuss the HP software franchise, and Bill Veghte will highlight what HP is doing around Security and the converged cloud.

Following Bill's presentation, we're going to do a Q&A session, and we aim to conclude the meeting around about 2:00 this afternoon after which there will be refreshments available outside, and you'll have the opportunity to walk around the Technology Showcase as some of you would have seen with some of the products this morning. And some of the HP executives will also be around and available for some informal discussion.

One specific note with regards to Cathie Lesjak's presentation -- as part of Cathie's presentation, we will be presenting the fiscal 2013 outlook. Those slides are not in the initial packages that you've received and that are on your tables this morning, but we will distribute them during Cathie's presentation. The slides will be available for you to see, but we'll be distributing the hard copy during the course of that presentation.

I think it's also a good time to remind everybody that this is being webcast, and a copy of the webcast will be available for about a year or so after the event. Please be also aware that this presentation includes forward-looking statements and involves risks, uncertainties, and assumptions. If the risks, uncertainties ever materialize, or the assumptions prove incorrect, the results of HP may differ materially from those expressed or implied by such forward-looking statements and assumptions.

All statements other than statements of historical fact could be deemed forward-looking statements including but not limited to projections of revenue, margins, expenses, earnings, earnings per share, tax provisions, cash flow, share repurchases, currency exchange rates, or other financial items.

Projections of the amount, timing, or impact of cost savings, restructuring charges and similar items, statements of the plans, strategies, and objectives, expectations of management for future operations, any statements concerning the expected development, performance, market share, or competitive performance relating to products or services and any statements of assumption underlying any of the foregoing.

A discussion of some of these risks, uncertainties, and assumptions are set forth in more detail in HP's SEC filings including the most recent Form 10-Q. HP assumes no obligation and does not intend to update any such forward-looking statements.

In addition, revenue, earnings, operating margins, and similar items at the company level are sometimes expressed on a non-GAAP basis and have been adjusted to exclude certain items. The comparable GAAP financial information and a reconciliation of all the items back to non-GAAP -- sorry -- non-GAAP to GAAP -- are included in the supplemental slides that are accompanying today's presentation.

So, with that, I am pleased to welcome HP's president and Chief Executive Officer, Meg Whitman, up on the stage. Thank you.

(applause)

**Meg Whitman:**
Great, good. Well, good morning, and thank you for coming to HP's Analyst Day. I think we have an informative day planned for you, and our goal today is to be pretty straightforward.

First, we want you to understand the journey that we're on to turn around one of the great technology franchises. We want you to understand how that journey may express itself in our financials, and we want to share with you our overall corporate strategy and give you an update on our three pan-HP initiatives.

I also want to give you a sense of the role that each of our businesses plays in the HP portfolio and the strategy behind each of the operating units. But perhaps most important, we want to spend plenty of time answering your questions about our business, our strategy, what the journey of the turnaround looks like. So we're going to leave a lot of time for Q&A at the end.

So let's get started.

As most of you know, I have been at HP now for just over a year, and when I became CEO of this company, it was a pretty turbulent time for HP. But I will say that over the past 12 months, I have seen many of the remarkable strengths of this storied company.

And first and foremost among those strengths are our customers and partners. We have an incredibly loyal group of customers and partners who want this company to win. Over the years, they have made enormous investments in HP's technology, and they need us to continue to bring them solutions that solve their problems and helps them win in their markets.

They also deeply appreciate the benefit that they get from a strong innovative company like HP in an industry that is increasingly characterized by consolidation.

Another HP strength is our unparalleled scale and distribution. I promise you, we can reach customers and partners in any corner of the globe, a capability that is more and more valued by customers -- even those customers that are not in the Fortune 100.

Now, one of the things that I had heard at HP was we were short on innovation. What I can tell you that innovation is actually alive and well at HP. We have a fantastic culture of great engineering and innovation, and it is a tremendous asset. My conclusion is not, in fact, that we don't have enough ideas or enough innovation, it's that we need to work a lot harder on getting those ideas productized and commercialized and into the market faster than we do today.

As I'd studied this innovation and the approach behind it, there are a couple of things that I think are quite remarkable about how HP approaches the market.

First is our focus on open architecture and standards. The second is our ability to partner effectively to give customers the solutions they need as opposed to driving an agenda that is not in their best interests.

As you all recognize, we are in a period of immense change in the IT industry, and companies that can effectively deliver an open extensible set of solutions that effectively bridge the gaps created by the vertical stacks of other players should enjoy tremendous advantages.

Now, additionally, during the last decade, HP has made a remarkable transformation from a printing company to a diversified technology company with a very powerful set of assets and IP. We now have a balanced portfolio of businesses that each meaningfully contribute to our operating profit and cash flow and they play an important role in solving many of our customers' most critical problems.

The good news is we are number one or two in each of our major markets, and we can leverage that scale in R&D and supply chain. And, as you'll hear today, we are also well positioned in important strategic growth areas like cloud, security, and information optimization.

And, finally, and most importantly, HP has a tremendous set of foundational assets including a very well-known and trusted brand -- trusted by CIOs, trusted by consumers across the globe. We also have a talented, committed and, I will say, resilient workforce of employees who will do anything for customers.

One of the great things about HP that is built into the DNA of this company is that we will do anything for customers. They are at the heart of this company, and they have been for the last 75 years.

Now, as you listen to our presentation today and evaluate our plans to turn around this company, I think it's important to remember the transition that has occurred at HP over the last decade.

In 2002, as you can see from this chart, HP was essentially a printing company with about 40 percent of our revenues but more than 95 percent of our profit produced in printing. Today HP is a global diversified IT company that's still comprised of a very strong printing franchise but only represents about 20 percent of our revenues and about 30 percent of our profits.

Carly Fiorina and Mark Hurd assembled a very powerful set of businesses. If we can run them well, these businesses can provide terrific customer solutions and excellent shareholder value.

However, as you all know, the recent financial performance of HP has not been good. From the peak in the fourth quarter of 2010, HP has seen a multi-quarter decline in revenues and operating margins. There's been a lot of talk about why this has occurred.

So let me give you my perspective having been here a year, because it should explain our path forward, and I think it will give you some perspective around the time that it's going to take to turn things around.

My belief is that the single biggest challenge facing Hewlett Packard has been the changes in CEOs and executive leadership, which has caused multiple inconsistent strategic choices and, frankly, some significant executional miscues.

This is important because, as a result, it's going to take longer to right this ship than any of us would like. I'll give you a few examples. In just one year, in 2011, HP went all the way to bright adding over $1 billion in field selling costs to our cost structure. While field selling costs went up, our revenues came down. In 2011 and 2012 revenues came down, in total, of about $5 billion despite the fact that we added $1 billion in field selling costs. The company faces the classic challenge of having costs misaligned with the revenue trajectory.

EDS provides another example. The acquisition of EDS was integrated into HP over the course of a number of CEOs resulting in a change of strategy, lack of focus on fundamental execution, and reliance on short-term unsustainable fixes that did not, in fact, help the business. And EDS has also had a significant change in leadership -- four different leaders in just about as many years. And there are many other examples.

Now, I believe that all of this is fixable, but it's going to take some time. In terms of basic business blocking and tackling, what I call "execution," HP has a number of challenges. First is we do not have the sharp competitive focus that we're going to need to thrive in the coming years.

In addition, another challenge is that HP has too many areas of focus, whether it's products or services or geographies. When Todd Bradley took over the printing and personal systems business, he was surprised to find that we made more than 2,100 laser printers. In every business, we're going to benefit from focusing on a smaller number of offerings that we can invest in and really make matter. By the way, we have plans to cut those laser printer SKUs by nearly 50 percent in 2013.

As I just mentioned, when I came to HP, I discovered that our cost structure was not aligned to our revenue trajectory. The problem went beyond field selling costs to include many other areas of the company. Marketing was one area. HP had a completely decentralized marketing function. Over 1,500 decision-makers around the world bought media. Just think about that for a moment. We got no leverage from a coherent HP message that all of our businesses could tuck under. We didn't focus on key countries and products that could actually move the needle in terms of revenue growth, and we didn't plan into the future to maximize media buying discounts and line up our partners and retailers behind those products consistently.

Another challenge HP faces is that the link between accountability and compensation was not what it needed to be. The direct line between what our executives are responsible for, the decisions they can make, and how they get paid needs to be a lot tighter than it is.

Additionally, the company was not well instrumented. And by that I mean there aren't the kind of metrics and scorecards that one would expect at a company of our size, scale, and diversity. As a result, we have trouble tying compensation to our most important metrics, and our early warning systems are not where they should be. I have learned at HP that you do not get what you expect, you get what you inspect.

I have also found that HP has suffered from underinvestment in the lifeblood of technology companies -- R&D and IT systems. We have some product gaps that we simply should not have. For example, it's been over seven years since we had a new lineup of multi-function printers. We do now for late 2012 and 2013, but we have a much smaller share than we should in this very fast-growing market that, by the way, drives a lot of supplies purchasing.

We also are simply not as competitive as we need to be in how we go to market, how we service customers, and how we run ourselves because of our IT systems. For example, we haven't been using a compelling sales management system or CRM system for years. Just this past year, we've made the decision to move to Salesforce.com, which we believe will yield real, tangible results in improving our go-to-market. And, in fact, Salesforce will tell you we are the fastest rollout of Salesforce.com at a company of our scale ever.

We are not nearly as internally efficient and effective as we could be also because of poor systems. Our services business, for example, has been running without an effective labor management system, and the whole company has been on ineffective HR systems for years. So we are now investing in Compass for our Enterprise Services business, and moving to WorkDay for all of HP. Again, we anticipate seeing measurable benefits from these changes.

Finally, our direct and partner selling motions need renewed focus. We need to move our direct salesforce to a value and solution selling focus. This will require time, and it will require training. We also need to reconnect with the channel. I love the channel, and we need to deliver consistent, simple, and competitive programs that the channel can count on every single day.

Now, in addition to our own executional challenges, HP faces dynamic market trends that we must address faster. The growth of mobility, the advent of big data, the move to hyperscale, software as a service, and cloud -- all of these require that HP assemble our powerful set of assets and move faster to develop products and services that position us to win in the marketplace. And we also face very aggressive competitors, and we have to demonstrate a will to win.

And last but certainly not least, we face a series of very real macroeconomic headwinds. SMB and Enterprise demand in Europe is very weak. The consumer, globally, is uncertain and spending less, and there is no question in our mind that China is beginning to slow down.

So having given you the landscape of our challenges, I want to now turn to the journey that we're on to restore HP and its financial performance. Remember, I have said from the beginning that this a four- to five-year journey. I would characterize fiscal 2012 as one of diagnosing the problems and laying the foundation to fix them.

On the heels of August 18 last year, when we announced that we were potentially spinning off the PC business, shutting down Web OS and acquiring autonomy, the number-one job facing me and our management team was to stabilize the company, and I think we've done a good job of that. We've provided a steady hand on the tiller with employees, with partners, with customers, and we've reminded people that HP is still the great company that it has always been. We have more work to do, but I think we've made good progress.

We have spent a lot of time understanding the situation in each business unit and each market. Peeling the onion has taken some time, but I am a firm believer that if you cannot name the problem crisply and concisely, you have no chance to turn it around.

I've made several organization and leadership changes that we all believe will help HP navigate the competitive landscape better and the market trends better. I also think they will improve our ability to execute.

We now have crisp, agreed-upon business unit strategies in place that are funded appropriately in 2013, and you will hear more about those strategies from our BU leaders and our Chief Operating Officer a little bit later this morning.

We have also, importantly, renewed HP's historic focus on products and services. I believe that the only way a company like HP comes roaring back is if we have the right products and the right services targeted at the right customers well packaged and sold in well.

As I mentioned, we have a cost structure that is not fully aligned with our near-term view of revenue. We began our cost management program in 2012, and it will continue right through. This needs to become a way of life at HP.

We have also put a full-court press on operational excellence. We go into 2013 much better prepared with focused scorecards, key metrics, and key leaders who are empowered to make changes and an acknowledgement that this is a crucial area that we have to get better in.

And, finally, in 2012 we demonstrated a disciplined approach to capital allocation in 2012. Cathie will give you more details but, in short, we made no significant acquisitions, we returned cash to shareholders, and we paid down debt.

So -- we've just completed year one on our journey, and as we head into 2013, here is how I think about 2013 -- it is a fix-and-rebuild year. And, by the way, I believe we're going to be doing this against a worsening macroeconomic environment.

In 2013, we're going to be working through the anticipated disruptions that came from the very necessary changes that we made in 2012. For example, as you know, we made quite significant changes to the salesforce to improve our go-to-market selling motions and also reduce cost. These were absolutely the right things to do. They were incredibly necessary but, as everyone in this room knows, when you disrupt the salesforce configuration, it takes a little time to settle in.

I believe we're going to continue to also see a broad-based profit decline across most businesses in 2013 as each BU fights to accelerate the new offerings that we'll win in the marketplace, get their costs under control, and improve operations. However, the good news in 2013 is that the bulk of the profit decline should be contained in Enterprise Services.

We will continue to demonstrate a disciplined capital allocation approach in 2013, and we will continue to make the necessary investments in each BU to set ourselves up for 2014 and beyond.

Now -- I believe that 2014 will, in fact, be the year you'll see real recovery and expansion at HP. We should see every business unit recover and grow. This is because the new products and services that we've been working on, and many of which will be launched in 2013 will be kicking in big time in 2014.

Our investment in R&D and IT will begin to pay off. We'll have yet another year of cost management under our belt, and we will have demonstrated our ability to manage costs in line with revenues.

Our Services business will have stabilized, and I believe will have begun to grow again, and our capital structure will continue to be improved as pay down debt.

And then FY15 should be the year of acceleration. I believe we'll see sustained growth from our business units, revenues should be growing faster than costs, and operational excellence will have become a way of life.

We should see a vastly reduced number of SKUs and platforms, which will drive benefits in things like supply chain, quality, warranty, and service costs. And we should have automated many aspects of our business, which will save us time and money.

And we'll also have much better tools like Salesforce and WorkDay to manage our sales. And compensation will be tightly aligned to very specific business outcomes and metrics.

And by 2016, we should have achieved clear industry leadership in many areas including cloud, security, and information. We also should be demonstrating product and service leadership in all our four businesses, and I believe that will manifest itself in financials where we should be growing revenue at about the rate of GDP, and we should be growing profit faster than revenue.

And we'll have proven again, over a five-year timeframe, that we know how to allocate capital in a shareholder-friendly manner.

Now, we all hope that we can accelerate the timing of this journey, but I now see, up close and personal, the nature of the challenges that we face internally in the market and from the macroeconomic environment. There are no silver bullets to solve our challenges. We will solve our challenges through consistency of leadership, focus, good blocking and tackling and, most importantly, great products and services delivered in the way that customers want to buy them, and that's precisely what we intend to do.

So, as you step back, our path forward is to have in place clear strategies at the company level and the BU level, a real operational focus and a capital allocation strategy that is investor-friendly.

Now I'll spend the next few minutes on our corporate strategy and the role that each BU plays in HP's portfolio. I'll also give you a very quick summary of the reasons that these businesses can win in their market and a very high-level summary of each approach.

Now, I get asked all the time, what is HP? And what I say all the time is that HP is the world's largest provider of information technology infrastructure, software, services and solutions to individuals and organizations of all sizes.

Our strategy has been clear for some time now. The core of this company is infrastructure and hardware. This includes our very powerful hardware franchise in terms of servers and storage and networking, and we have leading positions in personal systems and printing.

Infrastructure and hardware represent about 70 percent of this company's revenue. It is something that we do better than anyone else, and it is the essence, it is the DNA, of this company. And I think we need to stand up and be proud of that business. People say to me all the time, "Well, isn't that going to be a commodity business?" Not if we can help it. If we do the right R&D and stay ahead of the curve, there is no reason that we cannot continue to revolutionize many of these categories.

Now -- we're in the software business not to transform HP into a software company but to help solve our customers' toughest problems. Our software provides confidence, insight, and agility. Our Services business wraps our infrastructure and software together and is essential to making sure customers get the most value from Hewlett Packard. By the way, we are 100 percent committed to the Services business, whether it be outsourcing, consulting, application services, or technology services. These position HP to do what we do best -- act as a strategic partner.

And, as it turns out, we have a much greater share of wallet with a Services-led engagement with a much better opportunity to bring our full portfolio to bear. And our focus on solutions will make it all work by combining our technologies to advance our customers' business objectives in a holistic and compelling way.

We know that for HP to deliver the most value to customers, we have to be more than the sum of our parts. We have to be a great partner. And to do that, we've got to aggregate our powerful capabilities in infrastructure, software, services, to deliver those leading solutions. And the solution our customers want today and that we are incredibly well positioned to provide is around cloud, security, and information optimization.

So let's start with cloud. Customers are looking for speed and innovation with enhanced agility and lower cost. Our converged cloud portfolio helps clients build, manage, and secure their cloud environments. It extends the power of cloud across infrastructure, applications, and information. We have built our converged cloud on HP's leading intellectual property, our partners' capabilities, as well as open stack technology.

The second area is security. With mobility in cloud, the access points are infinite, and the threats have become more sophisticated and unpredictable. We know customers need a new approach. Not only do they need a lock on the door, they need a security camera in the room. And our security portfolio lets you see events across heterogeneous distributed environments from the infrastructure to the network to the applications.

And with autonomy in Vertica, we can help our customers analyze and understand the context of these events, which brings us to information optimization. To us, information optimization is about taking 100 percent of the information a customer has and turning it into valuable insights and decision-making excellence.

Think about the possibilities here. Think about the insights that you can get from today's world of information, whether it be Tweets, texts, videos, blogs, e-mails, the backbone of today's human interactions -- that is something that every customer I've talked to is incredibly excited about because they think that actually helps their business grow.

Now let me turn to our portfolio of businesses and the world that they each play at HP. Let's start with Enterprise Services. This is a $25 billion business for HP, and as I have said many times, Services is a turnaround. The good news is that it is now a turnaround with a detailed and extremely well-reasoned plan.

While, in 2013, we expect that Enterprise Services will see a decline in revenue and operating profit, over time, we expect this to become a moderate-growth business with actually expanding margins. Enterprise Services has a strong share position with a number-two IT services provider worldwide, and we have a new leadership team that is up to the task. You'll meet Mike Nefkens and J.J. Charhon a little later this morning.

Our printing and personal systems business is a $65 billion business, which would be a Fortune 50 company in its own right. I would characterize this business as a relatively slow-growth business with clear opportunities to improve cash generation, over time. PPS has very significant share leadership positions across the board, which IP and printing, and unmatched scale and distribution especially when you think about the combination of our printing business and our personal systems group. It also has a very experienced leadership team and a leader in the form of **Todd Bradley:**.

Todd, as you will recall, took our PC business from, roughly, $20 billion in revenue to nearly $40 billion in revenue, and from a money-losing franchise to the most profitable PC business in the world. He is now surrounded by top talent like Tony Prophet in supply chain, **Steve Nigro:** in our ink business, Ron Coughlin in our laser business, Eshau Wi (ph), James Mouton, and Dion Weisler in our Personal Systems businesses around the world.

Next up is our Enterprise Group. This is a $32 billion business comprised of servers, storage, networking, and now Technology Services. Today it's a moderate growth business but with a real opportunity to become a fast growth business with margin expansion, over time.

Our new fast-growing products -- as our new fast-growing products become bigger than our declining older products we believe will see that rate of growth accelerate. This business has an excellent set of assets, incredible R&D and engineering capabilities, and unmatched in the industry leadership and experience led, overall, by Dave Donatelli. He is accompanied by David Scott in Storage, Bethany Mayer in Networking, and Mark Potter and Martin Fink in Servers. Taken together, there is no better qualified team in this business.

And 2013 will be the year that Technology Services, led by Antonio Neri, becomes fully integrated both operationally as well as financially into the Enterprise Group.

Now, last but certainly not least, is our $4 billion software business. Today software is a moderate growth business that we believe has the ability to grow much faster and achieve meaningful margin expansion. The business is well positioned to capitalize on market trends to staff with strong products and a very seasoned management team.

George Kadifa recently arrived to help us lead this important business. He has been joined by Robert Youngjohns to lead Autonomy, Art Gillian to lead Security, and they come together with I.J. Gopal and Hans Peter Klaey to round out this tremendously talented team.

Now let me give you a few highlights on the strategies for each of these businesses and why I am excited about their future. For Services, you will see when Mike and J.J. present, that we have an entirely different operating model in place for 2013. For some time, the responsibility for revenue and cost has been disconnected from the people who owned them in each account. That contributed to the deterioration of cost and revenue performance over the last several years. For 2013, we are restoring revenue, cost, and profit accountability to the account executive in charge of our top 200 accounts.

We'll also be innovating and growing our core portfolio, and we are making the necessary investments on an accelerated timeline. All of this will make the business far easier to manage than it has been over the last couple of years.

For PPS, we are fast closing the product gaps that have hurt both our Personal Systems Group and our Printing businesses. We are doing this with a real eye to design and a target customer in mind for each and every new product. And we are also innovating and betting big on our ink business. We have done this before, and I am confident we can execute against these plans.

In the Enterprise Group, the bet is all around more and even better product innovation. And the innovation will extend to the software-defined world and the cloud. The R&D investment is there and will be protected for our journey to the cloud.

And, finally, software is all about getting our strong portfolio of products to the new consumption models that underlie the shift to the cloud. Overall, we are simplifying the operating model to make it easier to buy from HP, easier to sell HP, and easier to work at HP.

Now, I told you that HP's journey will be predicated upon the strength of our products and service lineups and what they do for customers. And in a moment, I would like to tell you about the products that I am most excited about as we head into 2013.

But first let me tell you what I hear from CEOs and CIOs every day. First is, technology is fundamental. It needs to be as available as electricity. And there is frustration out there about unlocking information plus that information is growing exponentially, and these CIOs and CEOs know they have to capture this.

Security and compliance are now Board-level topics in a world where your data is the most critical company asset that you have. And, most importantly, businesses want to reinvent themselves by using technology to disrupt traditional business models. Customers turn to HP because we can help them solve the toughest business challenges that they have with our technology products and services.

Now, you might imagine that I am quite familiar with these challenges from my time as the CEO of eBay. eBay was at the forefront of the Internet revolution, and we pushed the envelope of technology to deliver scalable -- a scalable and reliable experience. The company needed tremendous storage and networking bandwidth to deliver a great customer experience. And, like many enterprises, I was a big EMC and Cisco customer, and I paid a huge premium for their products.

However, today the architectural advances that have been brought over the last 10 years, those price premiums are now very hard to justify, and that is why I am so excited about HP's networking and storage assets. HP has created products that are built for today's enterprise challenges.

For example, our three-part storage is more efficient, faster to provision, and simpler to manage than the competition, and that's what our customers want -- data that's always accessible and always on.

Our StoreOnce software created by HP labs, addresses that age-old problem of the amount of data duplication that invariably occurs in storage. StoreOnce is three times faster in backup and five times faster in recovery than competition. Today there is a new way of managing your network called "software-defined networking." SDN allows you to manage your network based on the real-time priorities of your business, and it is a step function improvement in innovation and efficiency. We have the most comprehensive SDN offering in the marketplace.

And on the server side, our gen 8 server line is off to a great start, and Moonshot, our new high-density hyperscale product, I believe, will revolutionize the server market, much as we did with Blades a number of years ago.

On the printing side, we have a lineup of great new products. I'm excited about our deep intellectual property on ink and creating our new Office Jet products. Also known as Ink in the Office, this will reduce the cost of printing while meeting the tough requirements of business as our ink products move into small business, medium-sized business, and even the enterprise.

I'm also excited about a complete refresh of our multi-function printer lineup and new customer workflow solutions that are integrated with our devices. Our new multi-function color printer with document workflow powered by Autonomy is just such a product.

And we believe -- I know from having talked to CIOs and procurement heads that these products, I think, will enable HP to grow quite dramatically in the printing business.

We also have our ePrint cloud application, which makes it easier for our customers to print from smart phones and tablets. So think about the number of times that you have looked at something on your smart phone or something on your tablet and wished you could print it. We aim to make that happen.

Now -- on the software side, you're going to hear from George Kadifa about how our software business is going to deliver the big data promise of tomorrow today. HP software uniquely enables our customers to manage, mine, and secure their information. Vertica delivers search queries 100 times to 1,000 times faster than the traditional database technologies.

And our Autonomy meeting-based compute products integrates information feeds from every form of data, be it Tweets, videostreams, unstructured data, and structured information. Only HP has the tools that enable you to predict future behavior and be ready for any possibilities.

And plus, in services, I'm excited about helping customers on their journey to the cloud. This is an enormous opportunity for our services business, because our enterprise customers, there is not going to be one way, one journey, to the cloud, and we have the capability to help every customer figure out what way to the cloud is going to be right for their business and for their customers. So we are constantly innovating, creating new solutions that can drive our customers' businesses.

And then, finally, in personal systems, we have products that look great and appeal to customers, like the NVX 2 for consumers and the ElitePad, the first tablet that is designed uniquely for business. I am also excited about our Spectre XT, which is our thin and light notebooks. These products are uniquely HP and are designed with specific customers in mind.

Now -- let me spend a bit of time on our drive to operational excellence. We are organizing ourselves around four major thrusts. First, as I mentioned, is focus; second is go to market; third is cost leverage; and fourth is operations. In my view, operational excellence has got to start with focus. We've got to focus on a smaller number of products to develop, sell, market, and ultimately support. The cost impact, the too many products, SKUs and platforms have on our supply chain, on our ability to forecast, our ability to have the right amount of inventory on hand -- quality, service, support, training, and marketing is incalculable.

Even in our Services and Software business, trying to develop and support too many offerings has implications for delivery, training, and support. We also need to sharpen our focus on key geographies. Like most companies our size, 14 countries account for 80 percent of our revenues, and we operate in 166 countries.

Those 14 countries are the countries we need to pay a lot of attention to in the near term making sure we execute with excellence and determination. And we also need to improve our competitive focus. We live in a changing world, and every day we've got to ask ourselves what differentiates HP? Why is this product or service better than the competitors? How do we win in the market? How do we better gain a competitive advantage? And what's our specific win/loss ratio against each and every competitor in each and every category, and how do we improve that win/loss revenue over time?

Everything we need to do, everything we need must be measured against our competition, and we have to demonstrate our will to win.

With regard to go to market, more than anything else, we need a consistent sales model. We need to capitalize on the enormous strengths of our partner network with world-class programs that don't change very often. And we need to nurture our deep connection with customers and partners as we go through this journey, and we need to communicate even better than we have.

We also have to get it right in China. A lot of work is underway, and we need to stick with it. This is an incredibly important market for HP, and we have to be successful there.

With regard to cost leverage, we've got to optimize our business processes, deploy the right IT, and continue to manage our costs. As I mentioned earlier, supply chain and quality represent real opportunities but so does purchasing, real estate consolidation, call center efficiencies and pricing, just to name a few.

And, finally, with regard to operations, we're deeply focused on creating a metrics-driven model that links compensation tightly to accountability and results. We've centralized marketing to sell more products and services while inspiring confidence in HP. And, by the way, cash flow is getting a lot of attention, too.

We're driving sustainable improvements in the cash conversion cycle and the capital expenditure approval process.

And last but not least, our culture and our people are essential to driving HP's turnaround. We have to make sure that we have the right people in the right job at the right time with the right attitude. And our people need clear and consistent direction. We've got to lead HP by redefining the HP way for today. And we have to lead with authenticity and transparency and, in the end, we have to function like a team.

I believe with every single bone in my body that if we do this right, we can set up HP to be a world-class technology leader delivering unrivaled integrated solutions for our customers for the next 75 years. And we will also deliver improved financial performance and increase shareholder value. Don't bet against our people, our industry position, our portfolio, or our resolve. We are here to win, and we're going to deliver.

Thank you.

(applause)

And now I'm going to bring up Cathie Lesjak, our Chief Financial Officer.

(applause)

**Cathie Lesjak:**

Great job -- thanks, Meg. Good morning, everyone, welcome to our Security Analyst meeting. As you can probably tell from Meg's words and tone, that fiscal 2013 is going to be another challenging year for HP. Meg's laid out the journey that we're going to be on, and the situation that lies ahead of us.

As Meg shared, in fiscal 2012, we have seen a deteriorating macro condition, markets under pressure, and execution at HP that, frankly, is not up to our standards. And that's despite the fact that we have very valuable IT franchises across our businesses.

Our top line has declined 5 percent, our operating margins have contracted, and compounded with this, we've had working capital deterioration, which put pressure on our cash flow performance.

Though in the first quarter, we saw the dip in cash flow on a quarter-over-quarter basis, we are starting to see some improvement in cash flow. We have begun to address these broad challenges with leadership changes and restructuring actions but, frankly, there's a lot more work we need to do.

At the same time, we've had discipline in our capital and allocation process, and we've seen progress in rebuilding our balance sheet. We generated $90 billion in revenue and $8 billion of operating profit year-to-date through Q3. You can see on this chart, that we are providing more transparency than we have in the past with respect to our Services business, and I think that's really important given where we are in Enterprise Services.

Technology Services, which, in the past, has been reported in the Services segment is now going to be moving into the Enterprise Group segment with ESSN, and that's going to begin in Fiscal 2013. We are doing this to more appropriately align how we are managing these businesses, going forward.

If you now look at what EG, the new reporting unit, would have looked like in fiscal 2012 through Q3, EG would have contributed 43 percent of our operating profit on 25 percent of our revenue in fiscal 2012, and you're going to hear more about this business as well as all of our businesses as the day progresses.

As you can see on the chart on the right, we have generated $4 billion in free cash flow this year, and we've been able to rebuild the balance sheet while continuing to distribute capital to shareholders.

At an operating company level, our net debt position has improved over $2.5 billion so far this fiscal year. At the same time, we kept our intention to grow our dividend payout with a 10 percent increase in Q3, and we bought back shares, $1.5 billion worth of shares, in the open market as of the end of Q3. Note on this chart, though, when we look at share repurchase, we've included net share repurchase. So this is the cash that we paid for the shares that we bought back in the open market as well as net of what we received from employees when they exercised their stock option.

Now let me bring this back to the value creation framework that Meg shared with you. I want to take the opportunity to discuss, first, cost leverage across our businesses. And then, second, our capital strategy. I know that capital allocation is a top-of-mind question, an issue for you all. So I want to walk you through how we make decisions about how we're investing your money.

Since all costs are not equal, let me first share some insight on the cost models across our different businesses. You should use this visual directionally to understand our segments. In terms of operating leverage, as you can see, different businesses have different degrees of variability in their cost structure.

At one end of the spectrum, you can see that PSG has a substantial amount of variability in their cost structure. This allows them to roughly maintain operating margin even with revenue decline. And you've seen this manifest itself in our historical performance where you've seen us be able to maintain margins in PSG above 4 percent despite very significant revenue decline.

At the other end of the spectrum is our services business, and in that business we have to move much more proactively on cost when revenues come under pressure. And I think that is probably a good lead-in into giving you an update on our restructuring effort.

In May this year we adopted a multi-year restructuring plan designed to deliver simplified business processes, accelerate innovation, and deliver better results for our customers, our employees, and our stockholders. Accelerating innovation is an important point that I want to highlight because you should note that in our fiscal 2013 outlook, we are increasing R&D. And we are continuing to focus on making sure that we are doing the right things for the long-term health of the Hewlett Packard Company.

We announced, after Q3 earnings, an increase in the expected charges and headcount reductions that we plan to see through fiscal 2014. In fiscal 2013, the expected GAAP-only expense is $1.5 billion with respect to this restructuring program. Cumulatively, we expect, roughly, 26,000 employees to leave the company by the end of fiscal 2013 under this 2012 restructuring plan.

While we mentioned that the total expected P&L charge through 2014 is $3.7 billion at the high end, I want to highlight again that the cash impact of the restructuring is, roughly, $2.7 billion, approximately $1.3 billion of which will occur in fiscal 2013. The cash impact is lower than the cumulative charge given the fact that the U.S. early retirement program is largely funded out of our U.S. pension plan.

Finally, you heard from us that we expected the majority of our savings from the restructuring plan to be reinvested back into the business. We now expect that much of the savings is needed to offset the headwinds in our business. I will give you more specifics about this when I get to the outlook.

Now let's move on to the capital strategy. In the past, we have not shared with you this comprehensive view of how we think about our capital framework. So let me spend a few minutes really walking you through how we look at this.

Our main objective is to source and deploy capital to generate the highest risk-adjusted returns for our shareholders. To do this effectively, we have to first determine the business plans that aligns the company strategy and then formalize the return targets that become the hurdle rates against which we measure our investment alternatives. This requires a long-term view of where the company is headed and its target capital structure.

In our industry, disruptive technologies are constantly challenging the market players. In fact, Meg talked about how we are in the midst right now of a once-in-a-generation set of tectonic plate shifts that are changing the landscape of how technology is used and deployed across the globe. Given this, stable access to the capital markets is absolutely critical, maybe now more than ever given the global macroeconomic backdrop.

We need to make the right business decisions and get the capital in the right place at the right time to enable our success. In this context, we also need the flexibility to take advantage of opportunities when they arise. For these reasons, we believe that getting back to a mid single A credit rating is a top priority for us.

Second, we must fund those capital uses that are needed to achieve base business objectives. I think you should think about this kind of capital as required or maintenance capital that must be funded. We include here staying committed to our communicated dividend strategy and also rebuilding the balance sheets towards our target capital structure.

Said more specifically with respect to the balance sheet, we need to reduce our operating company net debt position to, roughly, zero to put us on the path to our desired target credit rating.

The final step is to take any excess capital and prioritize our investments based on the highest economic profit opportunities. Again, we look at this on a risk-adjusted basis and include returning capital to shareholders in our list of alternatives.

Many of you have asked why don't we buy back more stock? At what price will we buy back more stock? Is it a compelling opportunity? So let me double-click into how we think about returning capital to shareholders.

Here on the chart you can see our philosophy. For share repurchases, we buy back our stock when three conditions hold -- first, we have ample funds. I just laid out for you why having a strong financial profile that provides steady capital markets access is important to us. And we consider that a key priority for the long-term health of this company.

Second, we only create value for shareholders if we buy stock when it's undervalued. Like any use of capital, we want to buy attractively priced assets, and we don't look at this use of capital any differently. And, as you all know better than any of us, it is truly a very challenging exercise to accurately assess the true intrinsic value of any enterprise. So we look at a number of different dimensions when we think about what is the value of Hewlett Packard.

First, we do a full discounted cash flow analysis based on our latest internal forecasts. We look at relative value analysis based on how the markets view our peers. And we look at a multiples analysis based on what we think are the key measurements that drive the value of Hewlett Packard.

We also pay close attention to what you all tell us, both our buy side and our sell side analysts, and how you view the value of the firm.

Finally, if we meet conditions one and two, we measure the opportunity against alternative investments to make sure we're not missing out on any other better opportunities than share repurchase.

Turning to dividends, we pay dividends to provide a consistent and predictable income stream for our investors, particularly our long-term investors while concurrently showing our commitment to sustained return of capital.

Now, I've highlighted the importance of rebuilding the balance sheet. Let's look at the progress we've made. You can see that over the last several years we've utilized our free cash flow largely for M&A and share repurchases. This has driven our net debt position down below where a mid single A credit-rated company would be. As I mentioned, we have made progress this year by reducing operating company net debt positions by over $2.5 billion, but we have more work to do, and we expect it could take a couple more years before we are where we need to be.

Now let me turn to our outlook. Let's wait just a minute while you guys -- we pass these out.

Okay, these are the key assumptions that we have for our fiscal 2013 outlook. We expect continued and increasing weakness in the macroeconomic environment, especially in EMEA and globally in consumer. We expect year-over-year declines in revenue in all of our segments except for software. There will generally be slight-to-modest declines in those segments except for enterprise services where we are assuming a decline in revenue of 11 percent to 13 percent.

In ES, the heavy revenue pressure will be skewed to the first half of fiscal 2013. You're going to hear in a lot more detail from Mike Nefkens and J.J. Charhon about the specific challenges in the ES business in the next few minutes.

We expect currency to be a headwind of approximately 2 points and operating margins to contract year-over-year. From an eliminations perspective, you should model, roughly, flat eliminations year-over-year. On restructuring, we expect the total savings in fiscal 2013 from our restructuring efforts to be approximately $2.2 billion, up, roughly, $1.9 billion year-over-year.

OI&E is expected to be an expense of about $1 billion, tax rate 22 percent, assuming there aren't any material changes to the current tax legislation. We expect weighted average shares outstanding to be roughly flat with the exit of Q4 2012 and, as a result, we expect our non-GAAP EPS to be between $3.40 and $3.60, and our GAAP EPS to be between $2.10 and $2.30.

As you can see, at the bottom of the slide, we've provided some specific enterprise services information again to provide that incremental transparency so you all know how to track this business and track our progress.

I mentioned the revenue decline year-over-year of 11 percent to 13 percent, and we expect operating margins of zero to 3 percent.

Let me walk you through a bridge from our fiscal 2012 guidance that we provided on our earnings call at the end of Q3 to the fiscal 2013 outlook. I wanted to give you more clarity, so we did this bridge by major HP segments.

I just mentioned to you the assumptions around the significant top line and margin challenges and Enterprise Services and, again, Mike Nefkens and J.J. Charhon will add additional color shortly but, overall, we are seeing meaningful key large account runoffs, and that's putting pressure on margins despite plans for significant cost reductions in that business.

The expected impact from Enterprise Services on our year-over-year outlook in operating profit -- it's an operating profit decline of $0.29 to $0.35.

The new Enterprise Group, which includes Enterprise servers, storage, networking and technology services is expected to drive an additional $0.05 to $0.12 headwind in operating profit next year.

Dave Donatelli will share what he's seeing later on in the morning but, generally speaking, the revenue underlying this outlook is expected to at least hold rev share across industry standard servers, HP networking, and HP storage. But we continue to expect significant weakness in business-critical systems relative to the market and on an absolute basis.

Software and PSG in aggregate are expected to have relatively minor impact in the year-over-year story, while IPG is a tailwind for us with approximately $0.05 to $0.08 of favorability for that business.

Within the other bucket falls our corporate investments, eliminations, and one-time items. There is an expected increase -- or decrease -- in that category of about $0.08. It's related to one-time favorable items in fiscal 2012 that need to get normalized into fiscal 2013.

Finally, let me talk about the investments bucket. We've broken this out, pulled it out of the segment so you can specifically see what we view as the investments that come out of the restructuring. Broadly speaking, these investments are what we've -- the investments we've decided to make across the segments to position us better for success over the long term.

Example -- these include investments in R&D to strengthen our portfolio in areas such as software-defined networking, converged cloud, and Ink in the Office, to name a few. But in addition we are investing in business process reengineering, Enterprise Services tools to better run that business, and salesforce productivity solutions.

Overall, you should expect to see R&D up in fiscal 2013 as a result of the investments net of some portfolio rationalization and focus exercises that we went through. This bridges you to the $3.40 to $3.60 in our non-GAAP outlook for fiscal 2013.

Let me now turn to cash flow and give you some color on the cash flow that we've modeled for fiscal 2013.

With our EPS outlook, we expect operating cash flow to be approximately $8.5 billion in fiscal 2013. This includes an assumption around cash conversion cycle -- with a cash conversion cycle between 24 and 26 days. As I've stated before, we are focused on improving working capital, and it's clear that we have much work still to do.

We expect net CapEx to be approximately $3.5 billion, and roughly two-thirds of our CapEx spending is truly revenue-generating at its core, and it's really from our financing business operating lease activity as well as our Enterprise Services contracts. So as that revenue goes up and down so will CapEx.

This gets us to approximately $5 billion in free cash flow in fiscal 2013, but I think it's important to call out a couple of significant year-over-year changes in cash flow because it gives you a better sense of maybe what the run rate cash flow could be.

First, the restructuring cash flow expected for fiscal 2013 from all of our restructuring plans is currently estimated at $1.6 billion. That represents a $700 million increase year-over-year.

Second, as we've discussed in our most recent 10-Q, HP is appealing a finding that HP has underpaid certain customs duties on imports of products and spare parts for Services in India. A deposit of the claim duties plus penalties and interest is typically required to proceed with an appeal, and so although HP has requested a waiver of the deposit, we have assumed, in this cash flow forecast, a $400 million cash deposit in fiscal 2013.

This amount is near the upper end of a wide range of potential deposit amounts, and we currently expect a decision on our request to waiver in Q1.

After you net out all of the incremental items, as we consider it and think about kind of a run rate free cash flow, we think it's in the $6 billion range.

Before I conclude today, let me just take a minute to look beyond fiscal 2013. Long-term, from a financial perspective, here is how you should think about the HP opportunity. We expect to be a GDP-like growth company with key pockets of higher growth. We'll be the disrupter in key technology segments like networking and storage, and that, combined with software growth will positively impact our top line.

In addition, we expect that same dynamic to impact operating margins favorably over the long term given our growth rate -- these growth areas have higher margins than the current weighted average margins in our portfolio. We expect the businesses with more variable cost structures to maintain and even slightly increase their margins over the long term.

You'll hear more today about the opportunities that we see in both PCs and printing when Todd comes up and speaks. But there are also pockets of -- in our portfolio -- facing long-term margin pressures and, in some cases, top-line compression that will partly offset the favorable margin mix that I just talked about.

Netting all of these, we expect operating margins in the 10 percent to 11 percent range over the long term. Our operating and free cash flow should track with long-term movements in our non-GAAP earnings.

We are committed to returning cash to shareholders, and we believe that share repurchases and dividends are both effective means of doing that. We expect to continue to share the profits generated by our operations and, over the long term, scale the dividend payout.

Of course, our Board reviews our policies and practices on a regular basis to ensure that we are determining what is the right distribution policy to have at HP.

In conclusion, our financial philosophy is a return-based. We will continue to be disciplined in our capital allocation, and we will build the right financial strength that becomes the support that allows us to make the investments that we need to make to realize Hewlett Packard's full potential.

With that, I think I'll turn it back over to Rob, and I look forward to talking to you in Q&A. Thank you.

(applause)

**Rob Binns:**
All right, thank you very much, Cathie. Next up we have Mike Nefkens, who is the acting global leader for our Enterprise Services business and J.J. Charhon, who is the Senior Vice President and Chief Operating Officer for the Services businesses. So, guys, if you'd like to come up and join us. Thank you.

**Mike Nefkens:**
Thank you and good morning. I'm delighted to be here with you today. I'm Mike Nefkens and lead our Enterprise Services Group, and I'm joined by my COO, J.J. Charhon.

Since this is our first time speaking with this group, I thought we'd start with a quick introduction of each of us. So I'll start.

I've been with the company 12 years. I joined through the EDS acquisition; have run multiple businesses as general manager around the globe, turning them around over the past 12 years and before. And just recently spent three years running our business in Europe, Africa, and the Middle East for Services.

Before joining EDS HP, I spent 10 years in the Energy sector, where I actually was able to buy services from both EDS and other partners in the industry. I currently live in London. And I'll turn it over to J.J.

**J.J. Charhon:**
Hi, my name is J.J. Charhon. I have been with HP two and a half years. I joined HP as the CFO of the Personal Systems Group. I was then appointed CFO of Enterprise Services in April of this year, and then in my current position in August. Before that, I have had about 25 years of professional experience with General Electric, Novartis, and Quaker Oats.

**Mike Nefkens:**
Great. Okay, so what I thought we'd do today -- I'm going to focus on providing an overview of our Services business, our issues, and our turnaround plan. And I've asked J.J. to be here with me today onstage to focus on our financials and specifically on the fix we're going to be driving in operations and our cost structure.

So now that I've been at the helm for almost two months and working with Meg and team, what have we learned? First is we have locked in our plan, as Meg alluded to, and we are executing on the turnaround plan.

The second is we've spent a lot of time focusing on re-energizing our team for the journey ahead. Not just our internal team, also speaking with our clients and getting them excited about HP Services again.

As Meg and Cathie alluded to, FY 2013 will be a fix-and-build year for Services. However, we believe and are confident that we're going to be able to get this business back to moderate growth with real margin improvement, over time.

So where I thought I'd begin is just providing a quick overview of our business, and we'll break that down into three categories. We'll talk first about who we are, what we face and, in particular, the issues, and then what you can expect in FY 2013 and beyond for services.

So let me provide a few highlights on who we are. The first is what you'll hear -- global scale across geographies and industries, an industry-leading portfolio of services that's unsurmatched in the market in a unique position for us to take our marquee clients on a journey from the traditional IT Services to the cloud. We are positioned to win in this market.

Now, despite these strengths, we do have our share of challenges. Let me highlight a few of those -- macroeconomic pressures in our traditional outsourcing business. We do, as Meg alluded to earlier, have several four key clients that are running off in FY 2013, which are causing real headwinds on our revenue. And as Cathie alluded to, we will be seeing a revenue deterioration of 10 percent to 13 percent in FY 2013.

Our erosion in financials, in particular, margin over the year, have been caused by multiple execution issues -- insufficient tools and processes, a number of declining productivity, and a number of low-performing contracts that we're currently fixing.  Also, Meg alluded to the lack of leadership continuity over the years.

So what do we see for margin?  In 2010, our margins were at 10 percent.  They are now close to 3 percent, and we see a range of zero to 3 percent in FY 2013.  Over the long term, we see ourselves getting back to 7 percent to 9 percent.

So our plan of attack -- multiyear turnaround, FY 2013 will be a fix-and-build year.  We are focusing on fixing these execution issues that we talked to, and we are already seeing progress, and we expect, as I just mentioned, our long-term growth to be back in our 3 percent to 5 percent range, and our long-term profit margins to be back in the 7 percent to 9 percent range.

As you can see, we are being very candid today about our financial performance and about the issues we face and what you can expect from us, over time, as we execute this turnaround.  This is more than just a plan for a plan.  As mentioned, we are already executing and seeing progress.

So let me begin and talk a bit about who we are.  We have a very strong position in a large and growing IT Services market.  We are widely acknowledged by many industry analysts as a clear leader across multiple categories.  We are number one or number two in almost every category we serve.

Contrary to opinion, IT Services is a growing market in both the traditional space and in the emerging services space.  As you can see from the chart, the traditional space is about a $430 billion market growing at about 2 percent.  The emerging services space, these are cloud services, security services, mobility -- is about a $120 billion market and growing at about 12 percent.

So as we talk to our strategy, going forward, we believe we have a fundamental position, strong position in the traditional space to help our clients, and we'll help drive them into the emerging space in cloud services, et cetera.

One of our key advantages -- we have true global scale and market presence like no other on every continent.  We don't need to build it like some of our competitors do.  We have it today.  If you take a look at our diverse customers, these are large companies that come to us because they expect us to have operations in all parts of the world.  They can't wait for us to build.

So on the next slide, I'm going to talk to you a bit about the range of industries that we serve.  Most parts of HP, we go to market by horizontal -- very product-oriented.  In Services, we actually go to market in eight industries with world-class capability.  We handle mission-critical work, and we can do it anywhere and everywhere in the world for our customers.  We are the trusted advisor for our clients every day.

What this means is, when we actually sell a Services contract, we don't just walk away. At that point in time, we sit side-by-side with our client for a period of months, years, or even we recently had a contract that was a 20-year contract.

Our clients rely on us day in and day out to provide mission-critical services. Let me give you some examples. We perform over 2.4 billion health care transactions annually. Our systems help the airlines board over 500 million passengers per year. We process over $13 billion credit card transactions every year.

In our public sector business in the UK, we process over GBP1 billion in benefits per night. Without us, the poor, the elderly, and the job seekers don't receive their benefits.

Looking at the energy sector where I came from, we provide specific services to rigs out in the North Sea to countries like Nigeria where no one else has the scale and reach that we do. So we have true differentiated assets and capabilities in these areas and are delivering business outcomes that matter every day.

This industry expertise and footprint provides us with the right foundation to return to growth, which will be a key theme as you hear throughout the rest of the presentation. At this point in time, what I'd like to do is turn it over to J.J., and he's going to speak specifically about our historical performance and some of the challenges we're facing.

**J.J. Charhon:**
As a reminder, Enterprise Services was combined with Technology Services, which will now be included in the Enterprise Services Group. This is the first time we are disclosing Enterprise Services margin, which peaked at 10 percent in 2010 and have gradually been eroding to 3 percent on flat revenues.

Our recent financial performance was clearly not good and well below expectations, and in our mind does not reflect an accurate representation of our potential to compete successfully in the IT Services industry.

Although the root causes beyond our performance are mostly execution-related, let's start with some market context.

Traditional offerings in the IT services space are clearly under margin pressure. Customers are looking for productivity in the traditional infrastructure space to fund their need for new capabilities in mobility, security, and cloud.

For IT infrastructure service providers, this means two things -- the necessity to balance growth between the traditional space and the emerging segments; second, the imperative to be more selective when chasing your opportunities or renewals. In that context, as Meg alluded to, the separation of accountability across organizations between revenue generation and cost management has created a number of issues -- adverse mix of revenue when an increased share of third-party hardware sales; second, contract renewals and conditions which disproportionately impacted our margin.

The margin pressure in our four segments really accelerated the need to rebalance our growth focus towards the emerging segments.  That was clearly the right strategy.  That transition, however, was not well managed.  It was too quick and not paced with our ability to address our growth in market capabilities like sales training, sales deployment, and offerings.  The consequences were increased costs and declining sales productivity.

Last but not least, we have been working through some low-performing contracts that were signed both pre- and post-EDS acquisition.

Our performance degradation is planned to continue into FY 2013.  As Meg said, our revenue will contract anywhere between 11 percent and 13 percent in 2012 mostly as a result of exceptional events in our revenue profile.  There are really two main drivers for that -- first of all, four of our major accounts have decided to reduce their footprints with Enterprise Services as a result of renegotiations and decisions to insource some of their service line.  That accounts for about five points of revenue degradation.

The second driver is, as you know, we've been more selective in signing deals, and although this was the right strategy, it was poorly executed.  The impact on our signings in FY 2012 was a lot larger than we had originally anticipated.

The carryover impact of our lower signings in FY 2012 into FY 2013 represents about another 3 points of degradation and, of course, there is another 2 points of currency that we are anticipating.

In light of that revised revenue outlook that obviously we have been seeing now for a few months, we've actually been working actively on a fairly significant productivity agenda and other profit protection measures.  Let me walk you through in more detail as to what we've been doing.

The good news is that half of the cost reduction plan for FY 2013 really do not carry any risk of execution, as it is either associated with client transfers or actions we have already executed in FY 2012.  For the balance of the cost reduction plan, we have a robust set of initiatives lined up in FY 2013 to contain our operating margin decline.  They actually span across three major buckets.

First, productivity across our delivery cost engine.  Mostly consolidation of our labor pool and physical footprint, and I'll talk a little bit more about that in a second.

Improved revenue mix thanks to stronger service offerings and align incentives across our go-to-market organizations.  The stronger accountability model and linkage between pay and margin I think will allow us to reverse the recent trend.

And last but not least, remediation of our low-performing contracts through renegotiations or exits.

Given the headwinds that we face, as we have already communicated, we expect our margins to be anywhere between zero and 3 percent next year. Realistically, FY 2012 and FY 2013 are mostly about stabilization. We believe a sustainable turnaround is a multi-year journey with the initiative spanning across portfolio, go-to-market capabilities, cost, and operation.

Mike and I will now walk you in more detail through the initiatives we have started implementing in FY 2012 across these four categories.

**Mike Nefkens:**
Okay, so a summary of our turnaround strategy, and as J.J. highlighted, we've done a lot of work over the last months to already get ahead of 2013 by taking the cost actions we've done, but we still have a lot of work to do. So our turnaround strategy is really predicated on four different buckets of work.

The first is going to be around our portfolio of focus. And the word "portfolio" in Services really is the same as R&D in product. So we have got to innovate around our core portfolio and ensure that we sell into that. As J.J. mentioned earlier, we swung a little bit too hard in 2012 into some of the new emerging services and didn't really focus on upselling and driving our core portfolio.

We do have to, however, invest and expand into cloud, security, and information management and analytics. And, at the same time, we have to make sure that as we pursue new business, that we're looking at pursuing lower-risk, higher-value deals.

At the same time, we've got to get our go-to-market right. What do I mean by go to market? It means getting the growth engine cranked up again. This is a business for us that's primed to grow, and we have been way too reactive the past three or four years, and it's time now to become proactive in the market again. Our clients want us to provide them with high-value services.

So we're going to focus on empowering our account executives, strengthening our accountability model, and really making sure we optimize the sales engine so it's fit for purpose for the journey ahead.

Then as J.J. mentioned, we have to focus on cost leverage. We have to make sure that we're focusing on all of our different accounts, we're focusing on driving improved performance. We have to make sure we're optimizing and getting that resource management right, as it's so critical to the Services business, and we've got to continue to improve our asset utilization.

On the operations side, we have to standardize and automate with tools and processes. This is not a good business if you don't automate and take out cost. So we've got to continue to focus on that.

And -- as J.J. mentioned, as well, we're going to formalize and improve an operating cadence to ensure that our teams are accountable, empowered, yet we're supporting them and driving things on a day-to-day basis.

So we see, with this turnaround plan, we do see that these actions, many of them are already underway, and we see significant long-term financial impact of these actions. You can see on the bottom of the chart the relative margin impact of each of these actions for the areas that we've posted here.

So let me begin by talking a bit more about our ES portfolio strategy in the focus. In the center of this slide is where we're going to focus. This is the innovate and grow. The type of client who comes to HP Enterprise Services is not the typical startup that's wanting to host an app in the cloud. These are multinational companies with sprawling operations around the globe. They look to HP for our expertise, our broad service portfolio, and our footprint.

So our core is around the data center, apps development management, industry services, and business process outsourcing. This is where we have real distinct advantage and capability.

Now, this puts us in an ideal situation to help these customers take advantage of our cloud-based offerings and migrate to the new services, which you see on the right side of the chart, which are cloud services, application modernization, information management and analytics, and doing that in a secure manner.

Now, one of the things that historically we've done not as good as we could have is that we were too selective in the networking of workplace deals that we took on in 2011 and 2012. And what happened with that was we weren't able to drive the sales that we needed to do to sustain our revenue.

So to support this approach, we are now concentrating our portfolio and investment areas in a couple of areas. We're going to make sure that we drive in our entry point with our clients is going to be in the center area here, and we're going to drive to the right. But we are still going to do networking and workplace deals that are good for the company and have low risk and allow us to drive to the right in regards to the future services that we want to offer.

Now while this future mix of the portfolio is great, we've got to make sure that two things happen. One is that our clients are ready for this pace of change and adoption and, number two, that we have our go-to-market capability ready to support.

So that's the next area. And, again, what I mean by go-to-market capability, it's our growth engine. This is actually -- Services is actually a very, very difficult business if you're not growing, because you just can't get the cost out quick enough. And in the past two to three years, we've not been focused on growth. So jumpstarting this go-to-market engine is going to be one of the key hallmarks that we've got right now in the last part of 2012 and in 2013.

So what are we doing? We're empowering our account executives and making them growth-oriented again; we're strengthening our accountability model; we're optimizing our salesforce and our sales model. And let me give you some examples of what we mean by that.

Our account executives are now being measured and held accountable for both revenue and costs and sales. That's different than what we did the last three or four years. We are strengthening our pay-per-performance model so that there are linkages for our account executives around client satisfaction, around engagement gross margin, and around revenue and sales.

We're rolling out new systems and tools that will make it easier for our teams in the field to streamline, to sell, and to drive deals through governance quicker.

Also, on the selling side, we are making major investments in specializing our sales teams. We need to have sales teams that are detailed and have very strong knowledge in cloud, in security, and in analytics. Also in data center migration and application modernization and in business process outsourcing.

We've had too many sales generalists in the field the last couple of years. We now are going to retrain and make sure that we're able to put the right people in front of our customers to solve these tough business problems.

So, with that, we've talked a bit about growth and, again, we've got to make sure that our operations and our cost leverage is there to support. So J.J. will talk to the next two of our turnaround plan.

**J.J. Charhon:**
Retooling our growth engine is one of our top priorities, but building an operating model that can deliver contracts profitably while maintaining service levels and customer satisfaction is really the ultimate goal.

This is why an ongoing productivity mindset has to be part of our DNA. Here, again, we believe there are short- and long-term opportunities within our control. Our largest short-term opportunity is to improve account performance and fix our low-performing contracts. In our mind, a long-term relationship has to be good for both sides. We are putting in place a new dedicated independent management structure to really accelerate for our top 20 low-performing contracts are a path to a steady state.

We also strongly believe that tightening deal governance will allow us to reduce the number of troubled accounts and also the level of performance shortfall.

Over the next few years, we will be improving our resource management. The longer theme here is really the consolidation of our delivery engine for both variable labor and our physical footprint.

As you may remember, ES and EDS really acquired operating environment through their various customer contracts. That led to a highly fragmented footprint. We started to consolidate that footprint a couple of years ago, but we will be accelerating that initiative as we still have too many data centers, location for offices, or labor pools.

We are also working on improving asset utilization. In our operating model, operating margin rate is as important as asset utilization and asset turn. We believe that procurement is under-leveraged for third party labor, software, and hardware utilization.

As you can see, our priorities for growth and productivity improvements are all very clear. In all honesty, they have not changed dramatically over the last couple of years. What will make a significant difference is our ability to execute. In our mind, it starts with a clear and simple accountability model. We believe regions are responsible for in-year resource tradeouts and financial execution within the year, while service lines are responsible for innovation and productivity initiatives.

To make this work, we require tools and processes to be aligned to that accountability model. This was not the case in the past, and let me provide you with a couple of examples.

As you may already know, Enterprise Services and EDS was really a collection of highly customized contracts and limited replicability and leverage costs across the portfolio. Now, EDS recognized that before it was acquired by HP, and really introduced service line of product organizations that really was supposed to standardize the offering and drive reputable innovation.

They also strengthened the functions like leverage delivery for accelerating productivity. All of that made a ton of sense but was not followed with adjustments to processes and tools to facilitate the alignment of planning and execution activities across the organization.

Let me give you a specific example. More than 50 percent of our resources associated with ITO delivery are centralized. But there is no labor management tool. There is no process for making sure that the delivery organization is up to date on labor demand signals that are coming from the regions and the account teams. The implications are that resources that are released don't get reported as quickly, which, obviously, impacts utilization. Or that new accounts that come on really don't have resources, which triggers lost revenue and increased cost. These last two significant challenges are in resource management.

We also believe that standardization and automation are huge levers for improving our execution. This is why we are committing more than $100 million in 19 investments in FY 2013 and are ramping up our capabilities in LEAN.

In short, we believe in the simplicity of our standardized integrated model where roles are clear, processes and tools are aligned to the allocation of accountabilities and systems facilitate the sharing of information real time.

While all those initiatives across portfolio, go to market, cost, and operation excellence will span across multiple years, we remain extremely clear on our immediate priorities -- restore our sales engine, consolidate our delivery capabilities, and improve our operational execution.

We believe Enterprise Services on a standalone basis should deliver a return on investment capital in excess of 15 percent for a combination of improvement in operating margin rates and asset turn.

At this time, I'd like to hand it back to Mike for some closing comments.

**Mike Nefkens:**
Very good. So I think we mentioned at the beginning of the conversation that we would be very transparent and, hopefully, you have seen that.

So a few closing comments. We wanted to demonstrate a couple of things for you today. One was a corporate commitment to services. I can tell you that this is absolutely critical to getting our services business stable. And it's been something over the past several years that really hasn't had what we needed. And now with Meg and the team talking about how services is core to the company, we have that base to really be able to go and fix and rebuild this business.

The second is, we have a real turnaround plan that's not just a plan for a plan. We are already executing. You heard us talk about the cost takeout that we've already done in 2012 in preparation for 2013. You've heard us talk about the atomization and tools that we're investing in. We have a real plan, and we are executing to it and seeing the benefit.

Thirdly, we have a team on the ground that knows how to execute and solve these business issues that we talked about. And, frankly, we're very excited to have the chance to go and do this now. We would like to have seen it two or three years ago, but we know we can get it done in 2013 and set us up for growth.

Lastly, we are taking a very pragmatic approach to getting this business growing again. As mentioned, Services is not a good business if you're not growing, and we do believe over the next 12 to 24 months, we will get it there, and we will get back to growth rates of 3 percent to 5 percent, and we will get our margins back up to the 7 percent to 9 percent range.

So hopefully you can see the renewed energy that we have in Services. We're ready for the mission and the journey, and I'd like to thank you for your attention this morning, and now we'll turn it back over to Rob for questions.

**Rob Binns:**
Thank you, guys, and, hey, listen, before I let you go --

(applause)

-- before I let you go, I think everyone would agree that that was a lot of information in the slides there, and one of the ones you called up was the detailing the margin history of the business. You highlighted a margin at 10 percent, and do you think it's possible for the business to get back to those kind of levels, or do you think it was artificially inflated when you showed those kind of 10 percent margins?

**Mike Nefkens:**

Yes, so the 10 percent that we had back in 2009 and 2010 were a bit artificially inflated. There was not a lot of investment in the portfolio. We had made a lot of cuts that, frankly, were hurting the long term foundation of the business. But we do believe that we can get this business back to 7 percent or 9 percent.

**J.J. Charhon:**
Yes, I totally agree, and our focus is equally on also asset utilization. I think, really, the focus is getting in excess of 15 percent on return on invested capital. We believe we've got a ton of opportunities to really improve our asset turns so that combined with a 7 percent to 9 percent range is exactly what we need to deliver.

**Rob Binns:**
Okay, great. Listen, thanks, guys. Thanks very much.

**Mike Nefkens:**
Thank you.

**Rob Binns:**
We're going to take a short break now. Coffee and refreshments are out in the back. Please feel free to take advantage of some of the products that we have at the back there, and we'll have you back in 15, 20 minutes. Thanks very much.

(music)

**Unidentified Participant:**
Ladies and gentlemen, please take your seats. Our program's about to begin. Thank you. Please take your seats.

(video)

I need to have inputs all the time. I'm really passionate, but once I achieve something, I move forward. Yesterday we were doing a movie, tomorrow we're doing a website, next week we're doing a demonstration show. There's creativity everywhere. There's new projects all the time. This is called my brain score, okay? I always need to have this excitement for the next thing I'm going to do. Try do every day change what you know, seek to know what's out of the box.

I love to understand what's the last piece of technology. If I know that there's something new, I really want to try it. Wow, it is beautiful. This is super-cool. I love the size of the screen. I found this camera in there, so I can see myself, and I can see you. Using the tablet, I can zoom in and zoom out, make it smaller. I can scroll, you know, with my two fingers.

With Windows 8, everything is connected. Every single application, like pictures, music, you can connect it with your previous library. I have my wife with me here, so I very computers. I never have to smart code, so I think I need to put this in here. Okay, so enough. It looks like it has control of my computer. I think it's true. Yes. Crazy.

So every time I need to buy technology, I'm checking technical aspects, but I'll have to see it in my environment.

We have this new computer here because we believe that it fits with the space of the gallery. It's a piece of art. I mean, it's super-thin, no cables, it really impresses me. I want to have this as part of my life.

(end video)

**Todd Bradley:**
Well, good morning. I'm **Todd Bradley:**. I'm the Executive Vice President of the Printing and Personal Systems Group, so I'd like to welcome you all here. I thought that was a great video to introduce this segment of the presentation.

I'm going to take a few minutes, talk to you about PPS. I'm going to introduce **Steve Nigro:** and **Stacy Wolf:**, who are on our team. Been very, very inclusive in all that we've accomplished this year.

You know, the past few months, we've made a lot of strategic moves, and we've completed a lot of work. And while it's clear we have more work to do, I think it's also clear that we have tremendous opportunities in front of us. And that opportunity really starts today.

Today, in Printing and Personal Systems, we have more innovation in our product line than I think we've had in the past five years, from the Z1 All-in-One Workstation to the Indigo 10000 Digital Press, our new multi-function printers, our Officejet Pro, a full line of ultrabooks, and frankly, a new tablet specifically focused on the enterprise.

Today I'm going to tell you how we plan to deliver innovation in a way that matters--a way that matters to our customers, to our partners, and to our stakeholders. You know, in March, we saw an opportunity. We saw an opportunity to bring PSG and IPG together. Both organizations had the same customers, the same partners, the same retailers. And yet each organization had separate sales teams, different processes, from how we went to market to how we manufactured--frankly, too much discounting and not enough marketing.

And our focus, what we wanted to do, was to leverage our commonalities. We wanted to cross-pollinate the best practices, the operational leadership of PSG and the legendary innovation of IPG. And by doing that, we believe--and frankly, are confident--we can deliver tremendous value to our stakeholders. We've made a lot of progress since March, when Meg announced this alignment, or this consolidation. And today I'm going to share that progress with you.

But first I want to share the five key strategic initiatives we've established for PPS. We're enhancing our customer and partner intimacy. We're doing things like designing products in China for China, and three of those are already shipping very successfully.

How we strengthen our relationship with partners and renew their confidence in HP. We're accelerating both product and business model innovation with new business models to deliver ink more affordably, and implementing a common design language across our PC and printer portfolios.

We're differentiating with services and solutions, selling more than just a set of boxes, although we do ship and sell four boxes a second. And we're offering a total HP solution. We're investing and reinvesting in mobility, in tablets, mobile printing, and much, much more that's yet to come.

And finally, we're infusing all of this with operational leadership and discipline that we used to build PPS, consolidating our supply chain functions, aligning two sales teams, shrinking our corporate functions from twelve to seven, reducing printer SKUs by more than 30% by the end of 2014. At the same time, simplifying our PC platform by as much as 25% in the same timeframe. And, of course, aggressively executing and implementing Salesforce.com to improve lead conversion and improve the productivity of our sales force.

In that context, let's look at our two businesses, our IPG business and our PSG business. But first, I want to show you what we're doing in Personal Systems, and then I'll transition and tell you about Printing.

Here's our view of the Personal Systems business today. The big picture is we're the largest, most profitable PC company in the world, and we have become the perennial market leader. And the same team that grew this business from $24 billion seven years ago to where it is today is largely intact and largely focused on executing to the challenge that we have.

Clearly, this past year we've been impacted by both internal and external factors. The announcements of August 18 impacted us on multiple levels. On top of that, we faced challenges that ranged from macroeconomic headwinds to how we continue to improve the execution in our channel, both retail and commercial.

But we see tremendous opportunity, because this is a time of unbelievable innovation for personal devices. We are in the renaissance of a new era in personal computing--an era of new categories and new form factors. And while are people are embracing new devices, one thing clearly has not changed--the need to compute, the need to communicate. In fact, we see increased consumer demand, customer demand, for a variety of operating systems and chipsets like we've never seen before, all of which giving us confidence in that renaissance that's in front of us. So we are very focused on how we retool for that growth.

And here's what you can expect. First, you can expect innovation that results in better products, leadership, and brand-new categories and share growth in commercial tablets. Second, you can expect operational leadership that will result in an improved channel, a more productive work force, and a continued, very disciplined approach to profitability.

This is our view of the market opportunity in front of us. As I've said, personal devices are still an exciting business, with growth opportunities in spite of what you may read. Here's what we see. Yes, the core PC market is expected to stay flat, potentially through 2015. But the market for work stations, for all-in-one devices, are expected to grow. So, too, are PCs in emerging markets.

Meanwhile, we're excited, invigorated about our ability to define a whole new category in hybrids, which we'll talk to you about later today. And while we hear a lot about consumer tablets, there's another story, and it's around commercial tablets--tablets focused on the enterprise users that meet their needs, allow them to use their applications that they've developed over many years. And we expect this category to grow three times at the rate of the consumer tablet business.

So this is how we see our position today. We are number one in all of our core categories, and I think, frankly, we have nothing but upside in the others. We see opportunities to drive advantage through the massive size of our supply chain, to leverage our go-to-market network covering 170 countries, and to grow in the tablet category. Lastly, to capture that share in all-in-ones, growing especially aggressively in China and 4% globally.

You know, we also understand that consumerization of IT is real. We understand that people care about beauty and elegance and function regardless of if they're at work, at home, or on the go. And with this in mind, we've invested heavily and more than doubled the size of our design staff.

So I want to take a second. I want to bring up our Chief Designer, Stacy Wolf, who is going to tell you--and more importantly, show you--some of the traction we're achieving in this area. Stacy?

**Stacy Wolf:**
Thanks, Todd. Hello, everyone. This is a great honor for me and a privilege, and I'm taking great pleasure in speaking to you today. It's a great time for HP; there's a lot of good things going on. And one of the most exciting things for me as an HP employee is the investment that Meg and Todd have made in innovation.

From a design perspective, the design team is more energized, and you're going to see evidence of that today. I'm confident you're going to see changes through the end of this year into next year that are going to be remarkably different than what we've done in the past. From a design perspective, we are going to be taking true leadership.

So a couple of things that Todd mentioned, and I think it's important to kind of recognize from our customer insights, is there are some things that are changing in the business today. Consumerization of IT, and how do we rationalize that? Well, I can tell you that part of the design organization change, we centralized design.

So what does that mean? It means that we've taken the designers from the commercial side and the designers from the consumer side and brought them together. This cross-pollination allows us now to look at consumerization of IT in a completely different way. This is amazing. This is a great opportunity to bring life and excitement into what we own in the IT sector.

The cloud--it's one of those things from a cloud standpoint, and especially from a design standpoint, this is a great opportunity. As HP invests in the cloud infrastructure and invests in service opportunities, it now means new opportunities for the design team to bring on new hardware that takes advantage of that connectivity. Always connected, always on. This is a new opportunity where we can shed the legacy or old hardware mindset. We now are free. We can go lighter and thinner with these products.

And then the most important thing is, really, the design perspective. So when you think about design, design is more than just the hardware. It's more than just the device. As we've scaled up our design team, we've brought on designers from BMW, from Nokia. We've gone outside of our industry to bring on new talent to think in a different way as we think about design. This is very important. We are taking a key leadership in design here.

So, with that said, I'm going to take you through a little bit of the products that we have here and show you the significant changes that we've made.

So the first one is SpectreONE. SpectreONE is one of my most favorite products, and it's one of the first products that I actually, in my new role, took over. SpectreONE is a kind of completely different way of thinking about the all-in-one. You've heard about ultrabooks and that whole massive change in the notebook space, but what does it mean in the all-in-one space?

So if I can draw your attention over here, I think it's very, very significant, and I think they're going to actually open the videos up. If I turn this just slightly, look at that. Is that amazing? I mean, we have taken all of the mass, all of the thickness that you've seen in the past in the all-in-ones and transformed it. We now have an 11-millimeter bezel.

Okay, I talked to you about all the ultrabook space. We're bringing that here. We've completely redesigned the architecture, the mechanical architecture. No longer is the processor here. We've actually moved it into the support structure. This is part of the innovation strategy. And it isn't just about moving hardware; it's making the hardware better.

If the user wants to access this, they can actually pull this whole piece off. It's completely serviceable, like a desktop would be. We've revolutionized the all-in-one space. Just amazing. And along with it, we've redesigned the peripherals.

So let me go on to SpectreXT. SpectreXT is an amazing ultrabook. And it's not just an ultrabook for the consumer; it's an ultrabook for business. Remember, Meg and Todd talked about this transformation--no longer is a product just for one sector. We're designing across both. And I'm going to actually close this up, because I want you guys to see how significant HP is making in this notebook category.

Look at how thin we've taken this form factor. The materials to it--it's a brushed aluminum. It's diamond cut. We actually put the detailing to the edges to give it almost the sparkle of jewelry. But it's more than just hardware. It's more than just metal. We've actually complemented it by actually making some of the surfaces rubberized, so it has that sensory aspect so that when I pull it out of my bag and I hold it, it has that precious quality.

But one of the things in the notebook space that we've had for a number of years is our relationship with Beats Audio. And even in the ultrabook space, we've brought audio to the forefront. It has amazing sound in an ultrabook form factor. This is truly, truly amazing. We've really pushed the boundaries in the ultrabook space.

Now I'm going to go on to one of my most favorite products, and we spent a lot of hours in the lab trying to come up with, "What is the ultimate transformer?" The transformer NVX2--they're going to bring up the slide here--I think it's so significant. And you can see the quotes on the screen, and we won Best of Berlin in the IFA. This is amazing. This product hasn't shipped yet, and we're getting recognition.

So let me take you through a quick tour of this product. And again, I have to close this one to show you the significance of what we've done. So they're going to show you the video, and hopefully, you guys will get to see that. It is just amazing. Look at what we've done. This notebook-slender, sleek, and I said "notebook"--we've put all this technology into the hinge. Why? Because it has to go from notebook to a tablet.

We talked to end users. We sought their insight. They said, "You know what? I really want something that transforms effortlessly." We saw a lot of competitors out there. They took a tablet and they took a keyboard, and they clamp it together. And even out here, I see some of you taking a tablet, and you brought a home dock, and you brought another keyboard--all of that for mobility? This is all captured in one platform.

And what's significant about this, not unlike a jeweler, we've re-engineered this entire hinge, so if I go ahead and open this up--I just want you guys to see how significant it is--it lifts it up, it presents the display. But what is really killer here is that just that simple, just that quick. Now you go, "Well, it's just a detaching display." Mind you, it has no clamps, it has no extra pieces to it. This thing is just beautiful in its design. But functionally, it is one of the most remarkable pieces out there. Just that simple, just that quick, I've now joined these two pieces. It's back to a PC, it's back to a laptop. And again, sexy and clean.

So kind of traditional pieces, right? We've talked about an all-in-one, we've talked about a notebook, and we've talked about this transformer, which is still kind of in between. But what we haven't talked about is a tablet.

In the tablet, we have spent a number of hours trying to think through, "What is the opportunity that we have in the business space?" Now, a couple of things. We talked a lot with corporate accounts and end users in corporations. And it's so funny when you talk to corporate accounts. They go, "I want desktop connectivity." Okay. "I want serviceability." Okay. "I want scalability." Well, those are all great checklists from a corporate standpoint. But let's keep in mind, when I add all those pieces together from a design standpoint, it becomes big. It becomes heavy. It becomes ugly. We don't want to do ugly, right?

So the key thing about this is we had to be smarter, and I'm going to do a little bit of a pun here. But it's one of those things that when we designed this--let me take this off, because I want you guys to see it. Maybe we can do a little bit of a video here, because it's so significant when you look at the hardware. Look at how we've sculpted the sides. Why? Because this is how you hold it. And notice the bottom's a little bit thicker? That's where we've put audio. We didn't scrimp on audio. If you notice the top, we've actually put not just one antenna, many antennas, NFC, all into this little form factor, and we're thinner than the other guys. It's amazing what we've put into this, and it's fully serviceable. So it's just amazing.

But when I said we had to work smarter, what I'm referring to is smart jackets--the ability to scale and transform the tablet for every customer, every industry. We have come up with an ingenious way--if I just take this apart, and I want to show it to you because it's so ingenious. Just that simple, I slid that together. Let me put the top on. And what I love about this is that just that quick, I've gone from just a simple tablet to a full bank of IO. You name it, I can customize it, whatever your needs are.

But what's really amazing here is not so much the tablet, but what you can go and do. So I've talked to you about the tablet, I've talked about the Smart Sleeves. But what about productivity? "I want a full-size keyboard." Well, you know, some of those guys put the magnets, and they stick together. Well, we wanted to be more genius than that.

I'm showing you a transformer with our tablet. But it's not just a cradle that I put the tablet in. What's amazing here is, because of the way we designed the tablet, the dock, the Smart Jackets, I actually have a full PC. All my IO's out the back. I'm using one battery. What is beautiful about this is I've created the true PC. I've created the ultimate business tablet.

So if we go to the next slide, I'll end with a couple of themes that I want you guys to kind of note. I couldn't show you the future; they won't let me show you the future. But what I can show you is kind of the themes of the future. We're going to be thinner. The products have to have a gesture. They need to be iconic. They need to stand out. And one of the things that I started with, and I want to remind you--it's more than just hardware. We can't just keep selling hardware. We have to be better than that. We have to have better experiences.

So with that said, I'm going to turn it back over to Todd and let him continue. Thank you very much.

(applause)

**Todd Bradley:**
So thanks, Stacy. Look, I think it's also important to note that we're going to apply the same focus and discipline around elegance, around iconic and intuitive design, to our printers as well.

So let's take a look at printing. Here's our view of the printing business today. As in PCs, we are the category and world leader in printing. We pioneered the personal printing business 28 years ago. Now, it's fair to say that today we face macroeconomic headwinds, coupled with some secular shifts. To address this and to defend and expand our supply's territory, we have to innovate on new business models.

We have to drive preference by simplifying the printing experience. You know, there are five times a day I wish I could print something from my phone, that my phone would just find the nearest printer and allow me to print. And we must offer that kind of innovation to our customers.

So here's what you can expect--you can expect innovation around the printing experience. You can expect momentum in MFPs, managed print services, and in cloud printing. We expect an expansion, or we will execute an expansion, of our Ink in the Office and Ink Advantage initiatives. We know that we'll improve our brand preference by shifting that spend from discounting to marketing. We'll rationalize our spend and we'll increase our cash generation.

Looking at the market, you could really say that this is a tale of two cities. While the consumer printing market is expected to decline, we have an opportunity. Frankly, as the category leader, we have the ability to impact the overall trajectory of this industry. We see opportunities in commercial printing, in emerging markets, and managed print services and, frankly, in expanding the reach of ink.

Clearly, we've been an innovation machine in our printing franchise. We've been the leader for nearly three decades with that ability to innovate, coupled with global reach and unprecedented distribution. We clearly see upside in managed print services, and we see major opportunities to accelerate several new business models around ink.

Now, to tell you more, I'd like to introduce Steve Nigro**,** our Senior Vice President of Inkjet and Printing Solutions. Thanks, Steve.

**Steve Nigro:**
Thanks, Todd. All right. I want to get you guys as excited about ink as Stacy got you excited about design. So I'm going to talk about the ink business. And the ink business, of course, is a valuable business to HP. It's valuable for two reasons--the high margins that we generate, but also the IT that we have in the business.

Now, Todd just went over some of the market dynamics. And so what are we going to do to address the growth in the printing market? I'm going to talk about three initiatives.

First, growth in the emerging markets. We're going to be introducing or expanding our new business models in emerging markets, and it's going to allow us to take advantage of that growth and go after that valuable customer.

Second, commercial printing growth. Now, most people think of Inkjet as a consumer printing solution, and that is certainly true from a historical perspective. But actually, as commercial goes to color, and as we innovate with our technology, we can offer the customer a compelling value proposition of saving money which is foundational in the technology. And we believe that's going to allow us to really grow our ink business.

And finally, acting like the market leader we are, going after and creating new printing opportunities. I'm going to talk specifically about mobility. It's very similar to things we've done in the past when we created a digital photography industry. We need to continue to go after those new printing opportunities.

So let me talk about the emerging markets first. A key strategy for us is our Ink Advantage program. Now, this is a new business model for us. Let me explain it real briefly. What we do is, number one, we slightly increase the price of the hardware, including the entry-level products. We increase it about $20.00, approximately.

Second, we decrease the cost of supplies. We decrease the cost per page of the running cost by 2X--we cut it in half--and we lower the purchase price of the popular supplies to less than $10.00.

Third, we have to go tell customers about it. We have to go tell them that they can save money when they buy these HP printers in emerging markets. And our message is pretty simple. "Print more, pay less, no risk."

And what you find in the emerging market customer dynamics is they are very sensitive to their running costs. They actually will go to an extreme and compromise their quality to save money. So now what we can do is we can give them a no-compromise, no-risk solution and let them save money. And we really believe this is going to allow us to continue to go capture those valuable customers in the emerging markets.

So let me give you some facts about it. This is not something we just are starting today; it's something we've been scaling over time because it's such a big change. We wanted to get the facts to confirm that we had a model that worked.

And so what you can see, last year we shipped over 1 million Ink Advantage printers in 10 countries. And what we saw was an increasing usage of greater than 30%--in some cases, much more than 30%. Second, aftermarket share gain. We saw 15 points and greater share gain as we lowered the price of supply and lowered the running costs. The other thing we saw was a significant improvement in customer satisfaction. And finally, from an HP perspective, compared to our traditional emerging market ink business model, it's accretive. It's a better business for us. So it works for the customer, it works for us.

So what are we doing? This year in July, we expanded our Ink Advantage program to over 80 countries, and we also are getting and using our investment dollars to go out and tell people about this innovation, about the savings. And we think this is a key piece of our strategy to go after, with our new model, that valuable customer in the emerging markets.

Second, Todd talked about the growth in the commercial market. Now, again, people think about ink in consumers. What we actually have is what we call our Ink in the Office initiative. Now, what that is, is basically, to put it in terms of products, is our Officejet Premium position, just the Officejet Premium, the top position of our Officejet lineup and all our Officejet Pro products. That defines our Ink in the Office portfolio. And we have, again, a simple message for the customer--50%--actually, our message is 50/50--50% lower cost of printing, 50% less energy.

Back in March of '09, we introduced the Officejet Pro 8500. It was really the first time we came out with an inkjet printer that was business worthy. It had the reliability, the robustness, the intervention rate. And at the same time, we started talking about the savings. And so what we've seen is, on a system basis, from 10 to 12, we've seen a CAGR of that business of, on a system basis, of 17%. And we expect going into next year that we'll continue that double-digit system growth.

The other thing we saw is an improved margin. This business actually has better margins than our standard worldwide Inkjet business. And to give you a sense of where we are in this transition, if you look at the pages printed this year, using Inkjet, HP Inkjet cartridges, one-third of our pages come from our Ink in the Office portfolio.

Now, I really wish this event was about a month from now, because one month from now, I could be telling you more details about our next-generation Inkjet platform. And this is going to be a significant event in where Inkjet can go. And all I can say is these things don't happen very often in terms of when you actually change where a technology can go. And we're going to introduce a new platform and a new product that will allow us to go after new pages with our Inkjet portfolio, expanding from our Officejet Pro lineup, and still delivering that same fundamental 50% saving message. Because when it comes to printing those color pages, it is fundamentally lower cost with Inkjet.

Now, when you look at this growth in the MFP sector, we have a great lineup with LaserJet, we have an emerging lineup with our Inkjet portfolio, Officejet Pro portfolio. And we believe, with our new introductions of our MFPs on LaserJets and our Inkjet lineup, we're going to actually be able to grow share and have both those businesses grow as HP even becomes stronger in this growth segment of the printing market.

Finally, it's about creating those new printing occasions. One of the opportunities we have is mobile printing. Todd talked about it today. It's a very fragmented set of solutions. In some cases, there's some good solutions out there. Other cases, it's very difficult to use your mobile device and print. So what are we going to do? We need to make it simple for the customer. And the customer wants us to do this.

Two examples. Apple developed their solution with HP to print from their tablet, and that was done because of the customer demand. And recently we did some research, and we studied customers that had print-enabled tablets. And what we found, in their environment, in their environment, they actually increased their printing 1.4 versus those who did not have print-enabled tablets. So clearly, printing is changing, and we need to go where the new devices are. And we're doing that with mobility.

So what are we going to do? We're going to make it simple. We need to play to when you have the intention of printing. When you want to print, you're going to say, "Print." It will auto-discover your devices. And then when you print, it will send the print job. Now, it may go through a WiFi network, it may go through the cloud, but that's going to be transparent to you. It just is going to work.

And to give you an example of some facts of how we can drive this, as you know, we have our Web-connected printers. In the last year, we've actually doubled the number of printers that have connected to our cloud service. More importantly, we've seen an increase of 3X the number of pages that are coming through our cloud service. Now, it's not material yet, but it's an example of creating new solutions to drive new printing experiences and drive new pages.

So hopefully, I've got you excited about Inkjet printing in the future. It's a valuable business. We are going after the emerging markets, and we believe we can go out and grab those valuable customers with our new business model around Ink Advantage.

Second, commercial and commercial growth. As we go and innovate, we have a strong fundamental value proposition of saving you money, which is intrinsic to the technology.

And then finally, we're going to continue to create those new printing opportunities to create our future.

Thank you very much, and I'll hand it back over to Todd.

(applause)

**Todd Bradley:**
Thanks, Steve. Awesome, awesome, awesome work by Steve and his team. So he gave you a good sense of some of our plans around ink and a little teaser out there about what we have coming. At the same time, over the next few weeks we'll also be telling you about some very exciting, very new Laserjet, both products and solutions, that will drive an entire new level of efficiency in the office and further differentiate HP in the marketplace.

Now let's just talk about this, and let me tell you why I'm equally as excited about the new line of multi-function printers Ron Coughlin and his team have made. The point here is that we've, frankly, not won our fair share of the color MFP market. We have small share in a growing, high-margin piece of the industry. In fact, if we can get our traditional share--just half of our traditional share--that will equal about $2 billion in revenue, and our ability to generate products and services to do that, I think, would be self-evident.

So we're retooling to grow our laser business. And we'll be powered by a new line of multi-function printers, including 16 new products by the end of 2013. And we'll move forward from a position of strength.  You know, we've just received an industry report noting our MFPs are already leaders, according to third-party reports from Gartner.  And we'll further pull away from that pack in 2013.

In managed print services, we're growing faster than the market, and we still have an opportunity to capture more share, and we'll do it by utilizing our scale and our coverage.  We'll differentiate with e-print solutions and document flow.  We still have the opportunity to show the world that managed print services can bring the entire HP value proposition to life.

And I think this customer testimonial will show this extremely well.  So can you go ahead and roll the video, please?

(video begins)

DreamWorks has always been at the forefront of innovation in movie-making.  Our processes are very digital, very complex.  But our contract management system doesn't integrate with any other system, we have to have a lot of manual processes and paper trails, essentially shuffling paper from person to person to person and office to office to office.

Print the document, march downstairs, put it on someone's desk in their inbox, wait for that person to hopefully see it.

The back office was actually beginning to hinder some of the opportunities coming out of the production side.

Previously, in order to get the art work and our style guides in the hands of our licensees and/or agents, we would physically create a book, and then we would have to ship them all around the world.  Now we essentially just load it up into our website and push it to all the licensees.  Not only is it far more cost effective, but it's far more efficient.

We have managed print services in place with HP.  Through our standard quarterly business review, they identified document workflow efficiencies.

HP wrote the software that provided the electronic document program, and they also provided an HP unit that specialized in scanning thousands of documents in a timely manner.

We can now access digitally files going back five, six, seven years, whereas before, if you could even find the file, you would be lucky.  And just getting to that point would take weeks.

Now they literally just click a button.  They don't have to worry about any of these physical man labor issues at all anymore.

The information is secure, it's readily available, and it's all indexed and search-ready.

We've noticed that the approval cycle has come down dramatically. Search-and-find missions seem to have gone.

All the information is available to everybody that's involved in the process, and it really gives the right information into the hands of the decision-makers at the right time, wherever they are.

From an end-to-end perspective, we've cut out about a third of our business process.

We use HP strategically throughout the organization, everything from desktops, PCs, laptops, through servers, networking. It's been a great success.

HP definitely is a major source of our ability to make movies and have our company move forward.

(video ends)

**Todd Bradley:**
So I think that was a great example of what our products, our services, and our solution is capable of providing to the enterprise.

So the bottom line is we are retooling to win with new levels of innovation, new momentum in mobility, new business models to leverage our strengths and our assets, a more formidable go-to-market framework than we've ever had, a continued focus on optimizing our business, and an ability to do it with new levels of operational leadership.

The bottom line here is we are making real and tangible progress. And our opportunity, it's real, and we're going to attack it with vigor.

With that, I thank you for your time, look forward to talking to you about our products, and it's my pleasure to introduce Dave Donatelli. Thank you.

(applause)

**Rob Binns:**
Thanks very much, Todd. Actually, as Dave comes up onto the stage here, we're just going to run a very short video that will help share with you some of the feedback from customers on how they think about the full range of the portfolio in the Enterprise Group and what customers think about it. So if we could roll the video, and then after that, Dave will take you through the Enterprise Group. Thanks very much.

(video begins)

The converged infrastructure from HP means it's built for the future. By leveraging the blade systems, we wire once, and it doesn't require us to have a larger footprint on the data center floor. Intelligent provisioning is going to help us quickly get our systems up and running. And the fact that they report this back to HP, they're operationally, health issues, those types of things, it just makes us easier for us to manage. We love the ProLiants.

It was amazing. Within five minutes, I had a P4000 hooked up to a Windows server, volumes defined, and backups completed. With a one-button click, it basically moved their storage to a higher tier of storage and gave them that performance that they need.

We're very cognizant of resiliency in our infrastructure, and so the Intelligent Resilient Framework, the IRF that's part of the A-series switches, were very important for us, because it allows us to virtualize multiple switches and provides for a seamless transfer of load in the event of a switch failure.

VirtualConnect was really something we jumped on very early. And as the converged models around networking and storage content have come along, it's been really important for HP to continue to innovate, and we continue to take advantage of that innovation as well.

The Insight Control is obviously one of the huge advantages of working with the HP platform. And being able to integrate that with our VMWare V-center platform makes it really nice. That tight integration allows our engineers to go through a single console as opposed to having to have five or six consoles up. And being able to manage the blade systems, the storage and everything through a single pane of glass is a huge advantage.

The Cloud System Matrix gives us the ability to enable our customers to burst and grab additional workloads, grab more capacity on demand. And what that means, it's agility, it's control, it's better cost management, it's complete scale, and it's where the future of IT infrastructure is headed.

(video ends)

**Dave Donatelli:**
Well, thanks to our customers for doing that. And it gives you, I think, some insight to the advantages that they're seeing from all the innovations we've been bringing to the infrastructure market.

So I thought I'd start today by talking about our framework. How do we see the business, how do we see the market, where do we see it going, and HP's place in there. So simply put, we believe in the Enterprise Group, we're at the forefront of all the major trends you see happening in infrastructure. And that is great for our customers, and it's also great for the company's long-term health.

Because if you look at these trends and you look at the marketplaces we're addressing, they all have certain things in common--they're large markets that are growing, we're addressing them with HP-unique IP, and as we sell more of these products into these markets, we're driving margins that are higher than what we make elsewhere in the business and elsewhere traditionally.

Now, as we do this, like all of our businesses, we do face challenges, and we're very clear about those challenges and we're very clear about how we're addressing them. So if you look at across our portfolio, we're in the middle, streamlining multiple product sets. And again, the idea here is that over time, we have been selling more of other people's technology and not enough of our own. Or we've been selling technology into markets that really weren't going to be growth markets going forward. So we've made those difficult decisions. We've, again, moved to more of our own IP.

In the Unix business, we face multiple issues. We see, basically, a decline in the market overall. That's a secular decline in Unix. And we've also had our issues, as you know, with the Oracle situation that we'll address a little bit later.

In ISS, after great growth years in 2010 and 2011, we've seen not a good growth year this year, and we're taking steps to address that. Part of that happens to do with engagement of our channel partners, as well as the sales force reorganization that you heard Meg talk about earlier. We're adjusting to the fact that we've got these reorgs done; now we have to get people focused again on selling and driving the products we want.

And then finally, as you heard, we do have challenges in the macroeconomic environment out there. We see these particularly in EMEA, where we have a very large market share, as well as coming out of China.

But what should you expect from us in the future, and how should you measure us? Well, I'll tell you, what we expect is to drive continued revenue and share growth in the key categories that we're driving towards--that being networking, that being storage with 3PAR and StoreOnce, that being HP's cloud. You'll see us go back to increasing our X86 server revenue, and you'll see us drive increased revenue out of our channel.

So that's the business framework; let's talk about the market. In infrastructure, what we really see are three major trends out there driving the marketplace. The first trend is converged infrastructure, the second one is cloud, and the third one is one that you're really just starting to hear about out in the general marketplace, which we call the software-defined data center. And again, as I'm happy to say, HP has a leading position in all three of these, so we're extremely well positioned for where the market is going and its future.

At this meeting about three years ago, we introduced the idea of convergence. And the way you want to think about convergence is this--it's really the third major wave of infrastructure in the data center. If you go back to the 1960s, it all started with the mainframe. And the mainframe wave lasted a very long time. In fact, it lasted all the way up to the 1980s.

And in the 1980s, that wave started to get replaced with client server, and one name you know as best-of-breed computing, where people decomposed the stack and bought individual pieces. And that's the predominant way that infrastructure computation happens in the data center today.

But we saw a change happening, and the change was happening for a couple of big reasons. One, customers wanted to start to buy from fewer, larger suppliers who could handle more of their needs. And then secondly, the underlying technologies were starting to change in that client server and best-of-breed got too complicated, too inefficient, and there needed to be a better, more efficient way to deliver IT services. And that's where convergence came in--the idea of consolidating server, network, storage, and management into one consolidated infrastructure. And HP's incredibly well positioned here, because we're the only company that plays in all of those elements. And since they're all of our own elements that we design, we can design it right from the ground up.

Now, I'm proud to say that since we've announced this, every single competitor we have has followed. And literally, you can look on any Web page in the industry or any press release and see them start to talk about convergence. But while they were following, we have continued to evolve the technology. So today, if you look at our cloud products, they incorporate our HP software products as well as our server, network, and storage products. If you look at our backup products, they are made up of all these same technologies--server, network, storage, as well as our HP software products.

Through convergence, we're changing the relationship and the hierarchy of memory and cache management between servers and storage. And you've seen us completely consolidate the network connectivity between server, network, and storage in a way not thought about a very short time ago. So the products are real, they're here today, and we continue to drive success and growth where we've let these products out to market, where we've shipped them.

So how are we doing it? Well, we really have an incredibly ambitious agenda, and that is around infrastructure to really rethink and redefine each piece of it--rethink the way servers are made, rethink the way storage has been done for the last 20 years, and completely change the way networking has been done. And again, they're not just thoughts; they're actual products we are now delivering or will deliver soon.

So I thought what I'd do is kind of take you through each piece of this and see how uniquely we're approaching the marketplace.

So first off, let's talk about servers. Servers are undergoing a big, big evolutionary cycle now, and it's been driven by the things you know, the things you do every day. It's been driven by the Internet, it's been driven by cloud, it's been driven by the needs that all this increased computing around big data are driving.

So if you look at the server market, as we mentioned before, it started with the mainframe. Kind of the next generation after that isn't even on the chart anymore, because it no longer exists. That was called the minicomputer server, a business HP used to be in. That then moved into the Unix market, one of the markets we helped pioneer, and then into the X86 market, which is a marketplace we started. X86, as it's matured, has really broken into three different branches, where you have rack mount, where it started, blades, and what is now called density optimized, and you want to think of those as specific servers built for clouds.

Then finally, HP has introduced an entire new category of servers, and these are servers built from ARM and Atom chips. What you see there in the graphic is a picture of a cell phone. The reason why that's there is those are the chips, the chips we're using to build this new generation of servers. It's built from the same chips that are in your smartphones today, and it's nothing short of a revolution.

In the cloud today, we have customers who are running 0.5 million servers, heading to 1 million. This compares to enterprises who are used to running thousands, maybe hundreds if you're an SMB, but nowhere near 250,000 servers. So things had to change. That picture you see there, that small picture, has more than 70 servers in it. So, really, a whole revolution based on the needs of the market, based on our own innovation.

So if you walk through the server market, as I mentioned, we pioneered the X86 market, still a very big market for us and one that we have great share in. Our blade share is over 50%, if you look at the latest numbers that just came out from Q3. And our rack mount share, our overall share continues to be in the high 30s. The way we've maintained that for so long is through innovation. Although they're called industry-standard servers, we have pioneered tons of innovation in this industry, and we continue to do to this day. In fact, if you looked at the New York Times last Sunday, you saw pictures of our EcoPOD you see there, which is a whole different way to run industry-standard infrastructure.

Our latest generation of X86 servers is called our Generation 8. And here, again, is some place where we've added tremendous innovation compared to what had been happening in the marketplace. For years, industry-standard servers really focused on speeds and feeds, "How do I make a faster, denser server?" And we've certainly done that with Generation 8. If you look here on the bottom of the chart, you'll see, with all the industry-standard benchmarks, we're ranked number one.

Think about that for a second. Supposedly, we're all using the same chips. Supposedly, they're industry standard. But on every single benchmark, we beat every competitor. That's come through innovation.

In addition to that, what we found is that as enterprises adopted more X86 computers, the market needs changed. It's one thing to run a dozen of these, or hundreds of these. But when you start to run thousands of these, the way in which you manage them and support them becomes an ever-increasing part of your cost structure. And a theme you'll see throughout infrastructure today is how do you take that complexity and simplify it? And that's what we've done with Gen 8. We, in essence, have made servers that, as I said, run faster, but they're also proactive and they're simple. Our whole idea was invent a technology that basically managed itself.

And we did that by talking to our customers. We added what we like to call 150 customer-based innovations, meaning we sat with them and said, "Where do you spend your time? What don't you like? What can we automate?" And with Gen 8, that's exactly what we did. So now, literally, servers can start up with a touch of a button. We can update thousands of servers with one click. And we fully automated the service of all those servers.

So again, X86 is driven by innovation. We continue to lead, and we'll continue to drive innovation at an even faster rate here going forward.

Now, one of the big questions I get from everybody in this room is about Whitebox. Everybody likes to write about Whitebox, everybody talks about Whitebox. I think this data here is going to surprise you. So if you look back in 2009, we brought out a new line of servers called the SL Series, and these were targeted specifically where the Whitebox market targets which, generally speaking, had been large cloud environments.

Since that time, two things have happened--we've gained eight points of market share, and our margins in this space have grown significantly. Why? Again, because of differentiation. And it's this very market that the ARM-based and Atom-based servers will play. We are pioneering that type of technology. We've done it because with our innovation here, we solve the customers' problems. In essence, at the size we're talking--0.5 million servers, 1 million servers--traditional X86 will not work over the long term. You'll literally have to pave over a state to fit everything in the data centers. It's not going to work.

With the new base that we call Moonshot--and again, comparing it to our own X86 server, which is what those comps are on the bottom--we can now take a single rack and put thousands of servers. From a power perspective, to get the same exact computing power, we reduced power required by 89%. From a cost perspective, we reduced cost by over 60%. And I can tell you the margins on this are pretty good. So again, servers, big changes, a whole new revolution of servers driven by Moonshot, driven by innovation.

You heard Cathie earlier talk about the connection between our Support organization and our Enterprise Group. So we put these organizations together back in June of 2011, and what they principally do is provide support as well as professional services around our server, network, storage, and cloud. But it's not just the fact that we have the organizations together; we are also integrating the technologies.

So as you heard in that customer video, one of the brief snippets there was a customer talking about new technology we brought out with those Gen 8 servers, the idea that we have technology chips on those servers that enable us to automate how we service that environment for a customer. We can do it all for them from the cloud. The customer doesn't have to touch anything. By doing that, we provide the customer a better experience and, very importantly, we give the customer more reason to buy more of our services. So since we've done this combination, we've seen our best bookings in TS in five years. And as you know, those bookings will revenue out over time.

Also since we've done this combination, we've seen increasing what we call penetration rates of each service sale. And that measurement is, "How much revenue do we get per sale based on how many services the customer buys?" So on average, if you look at it, we're up about 300 basis points with our penetration rate, both in storage and networking since the combination of these two groups. So very, very powerful for our customers and very, very powerful for our business model going forward.

So that's just servers. Now, how are we changing the storage market? Again, here we have a very bold vision, and it's not just a vision. We're making a lot of progress in terms of actual revenue results with customers in the marketplace. So let me share some of that with you.

What our goal here was, from a business perspective, was again to move to more HP-owned IP that enabled us to have differentiation that we controlled going forward. And so, just to show you some of the progress we've made to date, our portfolio of what we call our Lead with our Future products so far this year is up 39% year to date. Our external disk revenue so far this year is up 2%. In Europe, we've now achieved second position in terms of market share with our external disk revenue this year.

If you look at our acquisition of 3PAR, it's been a fabulously successful acquisition. Revenue so far this year is up 80% year to date, fiscal year to date. And a question I get all the time is that if you combine 3PAR with EVA, how does that look? And if you combine that revenue together, you'll see that we've grown at 14% combined year to date. 3PAR has gained 2.6 points of market share in the high-end space since we bought it, and so far this year, we've signed over 850 new 3PAR customers.

So the point is, we're seeing tremendous traction with the technology, and I can tell you, by the end of this year, we have a very exciting product announcement coming out that is going to greatly expand the market opportunity for 3PAR.

The same thing is true in backup. Backup is an area that we're also concentrating on. And since the introduction of our StoreOnce technology, we've gained over 2.1 points of share. So we have the vision, we have the products, we're showing real-world results in terms of their adoption.

So why is it so different? Well, again, going back to our theme of simplicity in the data center, storage had gotten incredibly complex. I know most of you in this room follow all the other companies in the marketplace. And you know when those other companies present storage solutions to customers, they have multiple products with multiple different operating systems in order to meet the customers' needs. And frankly, what that does is that puts the burden on the customer to go figure it all out. They've got to train their people on all these different operating systems, they can't interoperate the arrays, they can't move data around very easily--very, very complex. And the same exact thing is true for backup.

So these systems themselves are basically software operating systems. That's where their value comes from, that's where their IP comes from. And what HP has done is very unique here, is that we have new architected operating systems that span a great deal of the customers' needs. So in essence, with one architecture, we can take care of more of their problems than anybody else. It greatly simplifies what customers do, greatly simplifies their implementation, gives us huge leverage in terms of R&D and go-to-market.

So why do customers love it? I could go on for hours about each product. Let me just give you some simple points. We can walk into any legacy storage infrastructure in the world, we make two written guarantees. "We'll take the storage you have and we'll reduce it in half." So if you have 100 petabytes of storage, we'll take it down to 50--guaranteed. "We'll enable you to run twice the amount of virtual machines on our storage than anybody else." Guaranteed. And we'll tell you, "Due to our modern architecture, our storage is about 90% easier to manage." The great news is a lot of customers are taking advantage of this. The even better news is I've never had to pay the guarantee.

If you look at backup with StoreOnce, we're doing the same thing here. Now, StoreOnce is a technology that was actually invented in HP Labs, and it's a net new technology written from the ground up that we transferred from HP Labs into our product group. And what it really does is, as we say, is to store data once. And we do this through de-duplication.

So de-duplication has become incredibly popular in the industry. Customers love it because it helps them to deal with the explosion of data out there so they can still meet their backup windows. But what they found is that across their environment, they need to do all kinds of different de-duplication. They need to do client side de-duplication, which is where they de-dupe at the server. They want to do inline de-duplication, where they de-dupe as data comes over a network. And prior to StoreOnce, and still today, the only way to do that was to buy, again, multiple products, make it complex, make the customer figure it out.

StoreOnce is the only product on earth that does all those types of de-dupe in one single product, one single architecture. And it spans from the low end of the market all the way up to the high end of the market. Better still, once that data is de-duplicated, you can move it anywhere you want in the enterprise in its de-duplicated form. No one else on earth does that. Everybody else makes you take the data and re-dupe it; or, if you will, rehydrate it back to its large state before you can move it.

It's based on our own software, as well as our industry-standard servers and storage. So it takes advantage of our convergence, gives you great technology at a very cost-effective price. And from a performance point of view, we offer performance that's never been seen before. So we can back up data at 100 terabytes an hour, and we can restore data at 40 terabytes an hour.

So let me give you an idea how that kind of translates to what people see. Well, versus our nearest competitor in the marketplace, which is Data Domain, we back up data three times faster, and we restore data five times faster. So again, in a world in which data is always growing, CIOs have a constant challenge of how do they back it up fast enough to remain compliant when every year their data doubles? So when you have a performance advantage in rate of backup, and if you ever have to restore something, rate advantage in the ability to restore, very, very important. And that's what StoreOnce offers.

So again, very unique architectures, leveraging converged infrastructure that offers simplicity in a very unique value proposition to customers that we've already seen very strong market success in.

In networking, the third leg of our stool here, you see another very unique approach. So we announced at this event a few years back that HP wanted to be a major player in networking. And I can tell you today where we play, which is in the enterprise network, there's only two of us in the world with double-digit share, and HP is one of those two companies.

If you look specifically at how we're doing in the regular switching space, we have about, globally, 11.5% revenue share and over 18% port share. If you look at China, which is obviously a high-growth country, we have more than 30% revenue share, and we're the number-one player in the market. We have significant share as well in wireless and significant share in WAN, where we're the number-two player in the world as well. We've added over 1,000 new customers in the last 18 months to our networking products.

So again, here's a combination of where we had our own IP as well as an acquisition of 3Com, and we can tell you the combination of our IP with 3Com has gone extremely well, and you see that in our numbers. And we believe the opportunity here is great going forward. And the reason why that opportunity is so great is because this is an industry itself that has seen market change and new architectures emerging.

So this is a quick shot of our family. You can see its comprehensive. We play in everything from the data center all the way out to the campus and everything in between, wired and wireless. You'll also see a common theme here, which is reintroducing--changing infrastructure for more simplistic approach. Because today, the way networks work is they're application indifferent, meaning the network doesn't care what the app is on it, it's very rigid and hard to change, and it's got to be managed manually. So customers literally can have 0.25 million CLI commands, how they manually manage a network. It's very hard, it's very complex, and it's very inflexible. They can't keep up with where their business is taking them.

Our vision here is really simple. We want people to focus less on managing the wires, or the infrastructure of the network, and make it easier for them to connect users to the applications so that IT can be a hero to their users because they're able to keep up with what their users want. The primary way that this is happening is with a term that I know has really gotten a lot of publicity lately, but one we've been working on for a long period of time, and that's called software-defined networking.

So since it's such a new term, I'll just take a moment and take you through our definition of it and then explain why this is such a sea change from what's been happening in the network marketplace. The first open layer of this is that you have open access to your infrastructure--so in essence, an open operating system where you can actually access the hardware layer of the network itself.

The second part of a software-defined network is you separate, for the first time, the control plane and the data plane. Now, this is something that's been done in different types of technology for a long time. And all it simply means is that you will have the network and its wires moving data, and you'll separate that from a centralized location where you can actually control what that data does.

Then the third piece on top of that is, as I mentioned before, traditionally networks have not really understood what applications were running over them. And that really hurt people around SLAs, because they might want to give one application more networking bandwidth than others, and they want to be able to really manage that application specifically. So the third layer of this is delivering open APIs. It will allow you to orchestrate those applications in an automated fashion.

So as I mentioned, we've already been at this a long time, and we have by far the most comprehensive SDN available in the marketplace today. At the base level, the infrastructure layer, we have been supporting OpenFlow, which is a standard that allows that open access. We've enabled that already on 25 of our switch products, and we have over 15 million ports installed already that are OpenFlow enabled.

Just yesterday in New York City, we announced our SDN controller, and this is a controller that gives you that centralized management that separates the control from the data movement on the network. And on top of that, we already enable open access to the application layer. And two folks you see there, HBO and CERN, are our beta test partners who are doing distributed security on their network using our SDN in one case, and doing distributed load balancing in the other, using our SDN. So we have real customers using real applications on SDN today.

Here's a quick look at our controller. I won't take you through all of it, but just so you know, you can buy it as an appliance. Obviously, we can make appliances based on our industry-standard hardware, or you can buy it as software-only. As I mentioned, we use the OpenFlow standard to help drive it. And it has the open API to enable access to it.

Now let me give you some context around this. There's probably about three different major models you hear about SDN out there. One, let's call it the legacy network supplier. Two, we can call the upstart overlay software provider. And then three is ours. And what you'll see across is dramatic differentiation. HP's approach goes end to end, from the data center to the campus to the branch. It allows access and openness at all three layers. And it enables you not only just to optimize the software itself, but the hardware layer as well. And you need to do both in order to have an optimized network.

On the overlay side, you really can only touch the data center, and you really can't touch any of those other pieces there. And the legacy folks want to defend the legacy and, I don't think, are too excited to see SDN take over. But I'll tell you what every customer tells me--it's not "if," it's "when." They're already talking about it now. Like any new major change, it will roll out over time. But the key thing is we're incredibly well positioned for it today.

And it's not just me saying these things. So if you look at how Gartner Group evaluates our infrastructure, and what you see here, these are their latest charts, so you can see the date in which they came out. Obviously, in our servers, we've been upper right for a very long period of time. Storage, as you see, there's a lot of players there, but what I'll point out to you is in the last time they did this, which was way back in November of '11, we moved significantly on that chart, and they do these based on execution and vision. We moved over as the most visionary storage company by their analysis. And I expect, when you see this chart again in November, that we will move up significantly on the execution side.

Then in networking, as you see, there's only two of us upper right. As I said, we have separated ourselves from the pack in networking. If you look at it from a share perspective, the next nearest enterprise networking competitor, we have about five times their share. So it's clearly now a two-horse race in the networking marketplace.

So that was infrastructure. Let me briefly now touch on cloud. So Bill Veghte's going to come up and talk all about the HP cloud going forward. I'm just going to cover a little bit about converged infrastructure and how it works in the private cloud as well as the hybrid cloud.

So what Bill will tell you uniquely about HP is that we have one architecture across all the various implementations of cloud, whether it's public cloud, managed cloud, or private cloud. And at the last Analyst Day, we introduced a product to you called Cloud System. And this product was built upon a combination of HP software assets and HP's converged infrastructure. And unique to other clouds in the marketplace, this system was built openly, so we manage both our hardware and competitors' hardware. And also unique to everybody else out there, we don't just manage hardware in a cloud-like manner, we orchestrate all the way up through the major applications. So what you see on the slide there is many of the folks where we have predefined their applications for the cloud.

And this has met tremendous customer success out there. So since we introduced Cloud System, we have over 775 cloud customers. And as you saw earlier, if you look at our cloud business overall at HP, it's a multibillion business for the company. This, as well as all the hardware we sell into all the other clouds around the world. So cloud is very big for HP, it's a big piece of infrastructure, and we're seeing very strong customer adoption with our offering.

So now the final big trend. It's one that everybody's starting to talk about, which is really the software-defined data center. And here again, we find ourselves at the forefront of this trend in leading our customers to this position. One of the neat things about these trends is that we are building on our strength in the data center, so we can help customers with their migration from where they are today to where they want to go. And one place for sure they'll want to go over time is to more of a software-defined data center.

So if you look at that, we again play across the board. The Moonshot product I had mentioned to you enables us to make a significant change in servers. You heard me talk about the power, the cooling, the density. But also, it really allows us to customize servers for applications, so really call it a software-defined server.

So if you think about an X86 server, it is a general-purpose server. The server is what it is; the customer puts their software on top. What we're able to do with these servers--as I mentioned, there's more than 70 servers you see there--is customize the performance of the server itself, the IO, the memory, specifically for the customer's application. Anything in clouds, there's going to be applications that they're going to need tons of compute for that they need to optimize perfectly. And that's what we call software-defined server. And Moonshot is the technology that, for the first time, enables that.

In the storage space in the software-defined data center, we're going to see the same thing. And you may recall that several years ago, HP bought a company called LeftHand Networks. LeftHand Networks pioneered the ability to run storage and base it on industry-standard hardware. In fact, we have over 150,000 sold licenses for that technology that we call StoreVirtual VSA. So we have a bigger footprint than anybody else on earth and lots of experience in doing this. And then finally, you just heard us talk about software-defined networking, which is the way networking is going to evolve in the software-defined data center.

All of these technologies will run on our converged infrastructure, and all of these technologies will run under our converged management. So again, greatly simplifying the data center, greatly simplifying their infrastructure, and this is the advantage of having HP's scale and HP's presence in all of these markets. Because as infrastructure is evolving, we can lead it because we have the technology to innovate within our four walls ourselves.

So what are we going to do to win? Well, you heard me talk about the three trends in infrastructure that we see. Our goal is to continue to lead them. And you saw me give you some interim reports on the fact that we're not just talking about this. The markets and the products we have targeted are growing significantly and making a significant impact in the marketplace. And we'll continue to build upon that.

We're also in the middle of this portfolio simplification. This means, from a revenue perspective, we're getting out of products that either are not strategic or are not good for our bottom line. But while we do that, that's why you see some of the revenue choppiness that you see in the business overall.

On the go-to-market side, we have consolidated our go-to-market, in essence eliminating layers of management to speed decision-making, make it easier for our folks to sell, and easier for us to give better service to our customers.

We have launched many new channel improvement programs in order to reengage our channel after the effects of what we call the August 18 announcement, and we expect to see healthy results from those.

Due to our scale, we always have great opportunities around cost leverage. In our Enterprise Group supply chain, we've kicked off our latest effort to bring out significant savings in our supply chain over time. And as I mentioned, by going to more modern architectures based on software, we also have tremendous R&D leverage, where we can develop once and attack many markets, where others have to develop multiple times to attack the same market.

Operationally, we have a lot of work going on as well. You've heard us talk about things like Quote-to-Cash, Salesforce.com to help our sales force become more efficient. And we've made tremendous progress on quality, and we always will continue to, because the better your products work, the better your quality is, the less inventory you have to have, the greater customer satisfaction you have, the easier it is on our service, and the more our sales reps can spend their time selling.

So hopefully, what you see here is we have a vision, we've been consistently executing it for the last three years, we are making progress toward that vision, and we're aimed squarely at the future of where this market is headed. So thank you.

(applause)

**Rob Binns:**
And Dave, just before I let you go, I think it might be helpful for this audience if you could provide an update on the Oracle Itanium situation and how people should think about the BCS business.

**Dave Donatelli:**
Sure. So two things about BCS. So if you look at the Unix business itself, we see that business in secular decline. If you look at last quarter's results as an example, every major company in Unix saw revenue decline year over year, and I think that trend is going to continue, again, as it's supplanted by these other new trends.

The second thing that's hit HP specifically, as many of you are aware, was Oracle's decision to stop porting their software onto our Unix systems, and that happened back in March of 2011. It's had a significant impact on our business, both in terms of our primary sales of those systems, as well as our support of those systems.

We are pleased that we won the first round of the lawsuit. Many of you probably saw that. And the judge agreed with us. Oracle has now started porting their software again, but it's early days, and we'll see how customers react to that, because that just happened.

**Rob Binns:**
Okay, great, super. Thanks very much, Dave. So we're going to take a break now. After we come back, we'll have George Kadifa walking through the software business, and as Dave talked about, Bill will talk about security and converged cloud. The lunch arrangements are out the back and off to the right as you walk out there. We'll have about 30 minutes or so. A number of the people that you heard presenting this morning will be around at lunch to connect with, as well as many of the executives that Meg has referred to, you know, some of the other leaders and members of the management team are around and sprinkled about. So feel free to connect and engage, and see you guys back here in about 30 minutes. Thank you.

**Rob Binns:**
Alright. If I could ask everybody to return to your seats, please, and we'll get started again. Alright, super. Thank you very much.

So, we're moving into the last part of the session before we get to Q&A, so I'd like to welcome on stage George Kadifa, who is our Executive Vice President for HP Software, and George will talk to you about the software business. So, George?

**George Kadifa:**

Thank you, Rob. Thanks.

Good afternoon. I'm George Kadifa. I'm Executive Vice President of HP Software. I joined HP about 100 days ago or so and let me give you a quick introduction of myself. I joined HP from Silver Lake Partners, where I was there for about five years and where I was an operations executive working with our portfolio companies for value creation improvements. Prior to that I spent the last 30 years in Silicon Valley and I've seen it all. I've worked in small businesses and start-ups. I've seen Oracle grow from $1 billion to $10 billion. I've worked at IBM. And I also did some management consulting work at Booz Allen. And I'm very excited to be part of Meg's team and the Executive Committee and I look forward to continue the dialogue with you.

Today, in terms of our HP Software, let me give you kind of the broad view that I've collected over the last -- since June, since I joined here. The first thing, in terms of who we are, it's a tremendous asset for HP; that is, we have -- first and foremost, we have an at-scale business; we have an excellent customer base who loves us continuously; three is we are operating in growth markets; four, we have leadership in a lot of the product lines that we have; and five, we also have disruptive technologies.

And so, you assemble all this portfolio and the challenges we're facing right now are challenges related to integration, leverage and growth. And in integration, we're trying to make sure that all these components are put together in a streamlined fashion. In leverage is how to take those components and that solution set and create significant growth opportunities. And finally, on the growth side, we need to try to enable some of the drivers of growth in terms of sales productivity, Web selling, SaaS and the areas of this sort. So, hopefully in that journey that we're starting is what you'll expect from us is an integrated business model that will grow at 2 to 3 times GDP, with very profitable bottom-line results.

Just to show you at least some statistics about the assets in that -- in this business, we're today the 6th largest software company in the world, totaling $4 billion in revenues. We practically serve every Fortune 100 company. We have about 50,000 customers and we have delivered innovation over and over again with leading products, be it grown in house or we've been acquiring some of these products.

And what you see in this -- in these concentric circles is really kind of the journey that HP Software went through, from working with a core application set or solution set developed at HP. Some of the people have been with us for a long time, or have been in this industry for a long time, remember the great brand that HP built out on OpenView. And from there on, through a series of acquisitions and in-house growth, we developed ourselves into a leader on the IT management space that will expand into the cloud. And we're also getting into the security area, which is a business that is about $800 million or so right now for us, and then into big data analytics and, finally, with meaning-based computing with Autonomy.

From a revenue profile point of view, just to give you more on the numbers, from a product line and product segment we're quite diversified right now. We have I'll call IT cloud management, which is about less than two-thirds of our overall revenue. However, security is a big element of what we do now and meaning-based computing is also a big share of what we're doing. And clearly, with big data analytics, this is a new area that we are building and it's actually doubling, if not tripling, on an ongoing basis, so it's a great opportunity for us.

We have disruptive technologies, both in cloud, big data and security. And from a revenue tie point of view, it's actually a great story for us because, today, between SaaS and support and maintenance, more than half of our revenue, close to 60% of our revenue, is long-term recurring revenue with very high operating margins in the 20% or so. So, that's kind of the cushion, the basis for everything we do. And the other piece is, if you look at our SaaS and license offering, about 25% of our new revenue is actually recurring revenue, SaaS revenue, which is making us a very significant player in the SaaS space.

If you look us as comparison to companies even like Salesforce.com, we're $1 billion bigger than Salesforce.com. We make more money than BMC Software. We have more SaaS revenue than the largest SaaS companies. And it's all here for us to integrate, leverage and grow and that's what we're trying to do. And the last piece, from a geographic point of view, is we have the scale and we have the reach, we have HP behind us from the brand. So, it's -- all the ingredients are there for our success.

Now, to go a little bit into our products. We have assembled these solutions into four product suites. We call them performance systems. And what we do is we partner with our customers and we try to see how best we can leverage these systems to enable the confidence, the insight and the agility that these customers are looking for. And I'll give you some examples later on specifically to what we've done for several of our customers in terms of business value we generated.

And these performance systems, there are four of them right now. We have the IT Performance Suite that is centered around the IT buyer. We have the Security Performance Suite centered around the chief information security officer and the security community. We also have the Legal and Compliance Performance Suites centered around legal, compliance, governance areas within the enterprise. And the last, but not least, we also have the Marketing Performance Suite that is focused on the chief marketing officer and his or her staff. And the reason we've expanded these suites is our belief that the IT spending is not going to be confined only for the IT organization, but is going to be spread across all these different lines of business. And there are some statistics or some bets that the CMO in the future and the near future will have more IT dollars to spend than the CIO.

Underneath all of this, underneath these four suites that we have, there are actually four core technology engines that are extremely disruptive. And these -- this is really the secret sauce of HP Software. The first one is the IDOL engine and that's the Autonomy engine that enables us to do meaning-based computing. And what we are going to do next is we're going to show you very soon what this engine is capable of doing to give you an example of the power of that technology that is available to us today.

Next to it is Vertica, which is a columnar database that enables big data analytics. And when Meg mentioned that we have technologies that are 100 to 1,000 times faster than traditional relational technology, Vertica is actually that engine. And we can prove it today and we have great, great outcomes with that.

We also have logger technology and correlation technologies. What this allows us to do is to assemble streams of data, and we're talking millions and billions of data sets, and assemble these and correlate them and create meanings out of them. And that's also as part of our IT operations side, as well as part of our ArcSight security event management, and we'll also have dynamic dependency maps that bring all these pieces together.

So again, it's a closed-loop system of innovative technologies enabling and powering our four performance suites.

From a market point of view, as I mentioned before, we are operating in markets that are growing in the 12% to 15% CAGR level, be it in enterprise security, which is expected to grow between 6% to 9%. Big data analytics is a big growth market for us. On the IT cloud management side, that's another growth market for us. And then meaning-based computing, that's an area where we're actually creating the market and this is an area where we feel very bullish about. So overall, on an overall software market point of view, our target or available market for us is we estimate it to be $54 billion and with significant growth. That's why we feel confident that eventually this business should be growing at 2 to 3 times GDP.

And in terms of these markets, our products are second to none; be it in automation software or in distributed systems management software. We can go one by one into all these areas and we have great and tremendous products and technologies to it. And our core focus, again, is to maintain that R&D organization and to expand it to keep remaining the leader in those areas.

So, to go back a little bit and talk about our customers, when we engage with the customers we start with the business idea. We basically try to -- we ask them the question what are you trying to do and how best can we go and deliver on that business value that you're trying to do. And what I did here is I brought three examples of customers that are referenceable for us, McKesson, Avis and the US Army.

As you all know, McKesson is the largest provider of healthcare products. And what they wanted -- the business idea that they had is how to institute confidence in their provider network. That's 200,000 doctors and providers. How to have that availability at the highest level possible and with 100% confidence while, at the same time, lowering the cost of delivery. So, good -- great quality, low cost.

At Avis what they were struggling with or they are trying to understand is how can they increase the safety of their drivers through GPS technology without having to take that as a cost of service. Can they make money on it or not. And for the US Army, clearly their mission was to protect the soldiers while they were carrying all these munitions that they had with them. Clearly, this was a very secure environment that they needed to maintain; otherwise, bad things happen to the troops.

And what we did at HP Software is, for McKesson, we deployed our IT and cloud operations software and were able to reduce their tier one service level breaches by 86% while, at the same time, they consolidated their data centers from 30 down to two cloud sites and they delivered on $61 million of cost improvements.

For Avis, what they did was we helped them through our software to simulate 20,000 different ways that customers will go and buy different configurations of their services. And we came to the conclusion that actually offering GPS and pricing for it would be something that could create more revenue but, more importantly, they generated $5 million of profits out of that exercise. And for the US Army, we allowed them to do 350,000 monthly transactions of the munitions systems in a very, very secured way and delivered on that promise.

So with that, what I'm going to do next is I'm going to do something that in the software industry we never do, which is deliver a live demo. And I would like to invite Brian Wiese (ph) here. The demo we're going to show you, to give you the context, is a live system that the London Metropolitan Police used a couple of months ago in the London Olympics. And what they were trying to do was to understand, within the parameter of the capital itself, if people -- what people were thinking so that they could predict if there was any hostile action that would take place and they would be ready for it so that they can eliminate it before it happens.

**Brian Wiese:**
Yeah.

**George Kadifa:**
And Brian just show us.

**Brian Wiese:**
Yeah. So, we call this the tight wire now, so we're going to come up here and do a live demo. But, I mean, to your point, right? I mean, the reason why we won that business is because the metropolitan police were struggling with an incredibly difficult problem, which is how do you make sense, right? How do you make sense out of all of the human information that has been generated and is being generated every single day? And what I mean by human information is the Twitter messages, right? That's a very simple 28-character piece but, if there's 60 million of them, how do I know and understand what's happening there in a human-like way, right? Everything from as simple as that to the complexity of say a video feed or YouTube or something that.

Inside the enterprise, you're talking about things like email. You're talking about blog posts. You're looking at information coming off your call centers. All of this human information is complex, it's diverse. And the other really, really challenging thing about this is that it changes all of the time, right? So, if I say, hey, Michael Phelps is the bomb, what are you going to do, scramble the jets? You can't do that, right? I mean, I'm --.

**George Kadifa:**
(Unintelligible.)

**Brian Wiese:**
So, I'm going to do -- just -- the demonstration you're looking at right now is how Autonomy technology is used to drive that insight out of the information that most computing systems understand as noise; can't see it at all, okay?

And just a little context about what's happening here. The Autonomy technology looks at this information and it reads it, watches it, listens to it and makes sense of it and forms and understanding of that information in human-like terms. And then it surfaces that information to you and I, right? In this context it's telling me what's happening in real time in the news. In the context of an enterprise, it might tell me what's an important document or not a document with relevance or something that might be a security breach.

And here's what I love about this demo, right? What you're seeing here, just sort of quickly, is -- by the way, this changes all the time so I'm sort of doing this on the fly.

**George Kadifa:**
This is live --.

**Brian Wiese:**
Yeah, this is live. By the way, it's live data.

**George Kadifa:**
It's still working**.**

**Brian Wiese:**
And what's happened is we're taking every single piece of news; news broadcasts. We're also looking at every single Twitter post that's coming across, and also broadcast news and radio channels, and we're listening to those. And you get a very interesting view, a nuanced view when you couple those two things together, right?

The first thing is what are the main ideas that are breaking in the news? So, if I told you to read every one of these documents, read every single news article, summarize it for me and tell me what the key ideas are, surface it for me and then, in real time, tell me and sort it out the way people are thinking and feeling about that. That's what you would see here.

So, what are we seeing here? What's happening right now? Okay, Iranian riot. Police clash with demonstrators. If it's red, by the way, it indicates that there's some negative response and sentiment to it. Coming on, apparently Jerry Seinfeld has surfaced in some way. People are not -- either there's a little bit of ambivalence about that. There's floods that bring dangerous animals to home. Private. So, obviously a lot of activity about the presidential debate.

**George Kadifa:**
Does this mean people are looking forward for that presidential debate?

**Brian Wiese:**

Clearly.  It must be that.

**George Kadifa:**
Wow.

**Brian Wiese:**
Here's another one good.  So, apparently shaved head have greater leadership.  So, I've got the clippers in the back, George --.

**George Kadifa:**
Thank you.

**Brian Wiese:**
What do you say, let's go take it --?

But, the point here of this exercise is there's no search box, okay?  I'm not asking the computer to tell me what I want to know.  I'm asking the data to tell me what's happening and that's a radically different proposition --.

**George Kadifa:**
So, we're better than Google then.

**Brian Wiese:**
Oh, it's completely different.  Google tells you what people are searching for.  I'm telling you what people are talking about.  Very different.

So, when you look at all these various topics, right, we've got presidential debate, we've got the head shaving that George and I are going to do, positive and negative.  We're also doing statistics on all of that so we can see who the most common people are moving that data.  Of course we do stats.  And then, at the same time, what we're looking at is broadcast channels.

Now, Autonomy is capable of watching TV and telling you what it's about; literally.  I'm going to summarize -- I'm going to sit there and watch hours and hours of TV and I'm going to summarize what the main ideas are and I'm going to put them together into channels and threads that make sense.  These are all about the presidential debates, okay?  And if I hover -- this is about an hour and a half ago that this came through.  Here's a bunch of news stories.  In this case the debates are mentioned.

And if I ask it, I can -- I mean, these are the key ideas that are in that particular news broadcast.  Now, I don't have to watch it.  So, hours and hours and hours of time saved.  There's no way to do this unless you put an army of people in a room and tell them to keep up.

**George Kadifa:**
So, it's jobs, healthcare and payroll.

**Brian Wiese:**
Jobs, healthcare, payroll, creation, allied. So, it's summarizing what the person on TV is tell me and talking about. This particular clip also mentioned the same thing, right? So, I can take the one I care about, I can post it. I can look at it later. So, imagine the amount of manpower you would need to do that. And that's the future of computing, to understand in real time human information in a way which is valuable to us as humans.

Now, I'll do it -- I'll take another exercise on the same front. What if I want to direct this machine a little bit more? And let's say we go into -- we'll just put this in terms of the same kind of exercise, right? If I asked you to take all the news feeds and all the Twitter posts and everything that's ever been written in the last couple of days or the last day, pile it up on the table, summarize all the information it's about and put them into the nearness of ideas. Because remember, ideas don't match, they have proximity, right? The same way. And then also change in real time. So, show me all of that. And by the way, then I'm going to ask you to summarize things for me in real time.

So, let's take something -- I don't know, let's --.

**George Kadifa:**
Let's take something very -- sports.

**Brian Wiese:**
A bit neutral, like the NFL --.

**George Kadifa:**
Sports.

**Brian Wiese:**
Yeah, sports.

**George Kadifa:**
Yeah.

**Brian Wiese:**
Unless you're a Raiders fan which, of course, is not very neutral for any of us.

So, the machine has already done that work that I just described. So, if I interrogate it now, what it tells me, amongst all of the news feeds that are out there, the most common concepts are about referees, Commissioner Gordon and Steve Sabol. Now, maybe I don't know a lot about the NFL and if I ask it to tell me, within the ones about the referees, where do all these things fit and I see there's a couple of key ideas; reaching agreement, the replacement officials. And of course I can look at the stories that are related to that.

Notice ending the lockout, which is about the referees and reaching an agreement and replace -- they're kind of next to the Green Bay Packers because the Green Bay Packers are the ones that kind of got the most hose by the whole referee thing. Now, the Cleveland Browns, a little bit further away from all these stories about officials. That's probably about the fact that -- yeah. So, if you look at these, it's because -- so, you're seeing the distance of how the ideas are related to each other in this map itself.

Maybe I don't know about how Steve Sabol is. Maybe I have no idea. But, I can say summarize everything that's being said about him and very quickly I know that he ran NFL films, he recently died from brain cancer, people consider him a genius and there's an awful lot of negative sentiment about it. Obviously, it's a sad story. Again, same thing for Commissioner Goodell. What is he doing and what he's saying?

So, these things are all related to the NFL, but it's done the work of thousands and thousands of executive assistants in real time looking at that information and telling me what's happening.

So, last interesting point here. This is just news. So, this is the editorialized content of the world. What happens if I swing it all the way over to the left and say just tell me what's going on in Twitter? And I'll push the push the sub-clusters up a little bit. Oh, yeah, this is good. So now, I'm listening to pure Twitter, right? Which is what people are saying on Twitter, what they're saying about the topics that there's -- and this thing. And so, apparently players feel tubby. And if I click on that cluster, it makes me look fat and I could use uniforms. So, you see there's no tag on any of these documents. And that's kind of the point here, right? I would never tag --.

**George Kadifa:**
So, tacky clothes.

**Brian Wiese:**
Right. So, apparently --.

**George Kadifa:**
Make us feel fat.

**Brian Wiese:**
News to me, but players are complaining that the new Nike uniforms make them feel fat and there's some stories out there and people are having a field day with it on Twitter, okay?

Time-Warner. Why is this coming up? Is it about the NFL or not? It didn't show up on my news feed, but I also notice that -- if I click on these Twitter posts, I see, wow, great because apparently the NFL network, because finally, I've been waiting on this forever. Christmas because I'm early, yay. So, that commentary real time, the hopes and wants and desire is being layered over it. And what becomes really -- because everybody's really happy about the NFL referees coming back.

I can do a really nice thing now and split the difference. So, I can say -- this is now telling me not only everything that's in the news, but also an overlay of that in real time. And it changes. I mean, an hour ago this was different, okay? About what's happening and where it's happening. And you could never, ever do that with traditional computing. And as we look to move this engine and move this intelligence around, I mean, that's the future of IT for us and that's where we're going to take it.

**George Kadifa:**
Well, Brian, thank you very much. Again, this is one -- let's clap for him.

**Brian Wiese:**
Thank you.

**George Kadifa:**
Thank you. Thank you.

**Brian Wiese:**
Sure thing, George.

**George Kadifa:**
This is literally -- this is the future of big data. This is available today. It's available at HP and only from HP.

So, let me conclude. First, we feel that HP Software is very well positioned for future growth. And we're doing it along three vectors and that's the plan going forward, that's the strategy we're following. The first one is we're going after new buyers. We're going after where the money is going in terms of spending on technology. So, we're going after the CIO, but also, again, after the security officer. And like in this case, we're going to go after the Chief Legal Officer or the Chief Marketing Officer or, in some cases, the Chief Communications Officer. So, there is incremental value for us and incremental markets for us.

The second piece we're doing is we're giving these buyers new consumption models. We're not going to them and saying you've got to buy just a license and it's a perpetual license. We're going to them and say tell us how you would like to buy our technologies and we'll give you an adaptable model to deliver that for you.

And the third piece, also, is we're doing that while at the same time augmenting and expanding our portfolio of products. And as you've seen here with our four performance feeds, supported by four engines that are disruptive from a technology point of view, we have a lot to offer to the marketplace.

The other area that is significant for us in our strategy is how to leverage all of this within HP, within the core HP hardware and infrastructure solutions; be it in cloud management with the work we're doing with Dave on cloud systems, or be it in security or -- in terms of end user security points we might do with personal systems, or also using meaning-based computing and printers. There are a lot of opportunities and additional capabilities we're exploring and we're finding some solutions for it.

So, to summarize, we're very confident about our direction forward. We're going to win based on four core components; on our focus, how to get an integrated model in place and how to get our portfolios and leverage them as quickly as possible. The second piece is a go-to-market. As we've seen, we're expanding our reach from a market point of view beyond just the CIO while, at the same time, having a very strong CIO presence. But, we're expanding that. And two, we're offering new consumption models that will also augment our capabilities.

The third piece is operating leverage. And that's an area where we're working a lot on it because we need to build further scale in what we have. We need to increase productivity and we need to also build SaaS delivery. We have a lot going on right now, but there's a lot to be done, also.

And finally, on the operational excellence side, again, integration, leverage and growth. And what you'll see us working more and more is an integrated portfolio; not just integrating companies from a back office point of view but, more importantly, how do you put Security an Autonomy together. There's a demo outside also that can show you more about it. How to use meaning-based computing to track what ArcSight delivers in terms of inside to secure transactions.

The second area on Autonomy. Autonomy is going to be a long-term project for us. We're going to be taking Autonomy from what is today a start up from an operation maturity point of view. Although the technology is great, the operational framework is still non-scalable. So, we're going to go and build on that and turn it into a very scalable and grown-up organization.

The third piece is keep improving our pipeline and on sales productivity. And the last, but not least, is to leverage the Web for our own benefits, which is to create more demand generation for us.

Again, it's been 100 days. A lot of busy days during these 100 days. I feel very, very comfortable with where we're at from HP Software. Looking forward to giving you an update anytime in the future.

Thank you. Great. Thank you, Rob.

**Rob Binns:**
Thanks a lot, George. I think one of the things that would be very helpful for the audience here to understand is you talked about it being 100 days in. Your perspective on the portfolio and, specifically, if you could give everybody an update on the operational performance at Autonomy, because I know --.

**George Kadifa:**
Sure.

**Rob Binns:**
That's been a big area of focus for you.

**George Kadifa:**

Sure, sure. First, on the current portfolio, we have a lot of products. We have about 200 products, roughly, and we need to summarize them, as I mentioned to you, into these four suites. And under these four suites, we're going to have between two or three product lines per suite. So, that approach, that rationalization exercise we started and that's going to take us this year to complete and accomplish. And that's the first.

And then when we accomplish that is how do we go to market with the maximum aperture because a lot of these products have so much potential that we need to realize that full potential in terms of direct, in terms of SaaS, in terms of Web, as well as in terms of channels.

**Rob Binns:**
And on Autonomy? If you've got a brief update on the work the team has been doing on the operational performance --.

**George Kadifa:**
Sure.

**Rob Binns:**
Performance of Autonomy.

**George Kadifa:**
Right, right. As we indicated, Autonomy moved to HP Software about 30 days ago or so and the first thing we did is we hired the general manager to manage Autonomy. And we have Robert Youngjohns already very busy working on the business unit. Autonomy has, as we showed you here, this was an Autonomy technology. It has tremendous technology, second to none, and has a lot of potential to it.

Where we are struggling with right now, and I'll use that word even, is the sales model was very non -- it was very non-scalable. We -- it did not adapt to a company like HP. With the strength that HP had, we totally overwhelmed that sales model. So, we're rebuilding that model into a more coverage-based, scalable model. And two, the back-end operational processes were start-up like. They were not mature the way we want them to be and we're working on that element, too.

It will take a while. This is not a one to two-month exercise. This is more like a one to two-year exercise. And hopefully we can show you on a quarterly basis some improvements in that. However, it's not going to be always linear. We might occasionally do much better and sometimes much worse, but it will get there. We're quite confident on that.

**Rob Binns:**
Great, super. Thanks a lot, George.

**George Kadifa:**
Okay. Thank you, Rob.

**Rob Binns:**

Great. With that, I'd like to introduce up Bill Veghte, Chief Operating Officer for HP, and Bill's going to talk a bit about the security and converged cloud solutions we have for HP. So, Bill?

**Bill Veghte:**
Great. Thanks, Rob.

Alright. So, you're into the final chapter of our journey together today and what I want to do is walk you through some of the great opportunities that we have across hardware, software and services. As you'll recall, when Meg started this morning, one of our hypotheses and beliefs is that if you take the innovative hardware that you saw from Dave and Todd, you combine it with the services offerings that Mike Nefkens talked about and the software assets that just -- that George just talked about, that positions us to deliver differentiated solutions for customers in high margin, high growth areas.

Two great examples of this are in security and in converged cloud. And I'm going to walk you through -- I want to give you a sense of how we see the market evolving, the customer needs that we're intersection, and then what that means in terms of revenue and margin opportunities for HP.

So, let me start with security. As you think about the IT industry in front of us, I think the largest single risk to the information technology industry is security. If you think about the evolution that's happened over the last decade, we've moved from the Code Red and Nimda type viruses that were motivated -- that were done by teenagers motivated by fame to hackers that wanted $10,000 to a fundamentally different motivation and nature of attack. Whether that be a terrorist agenda or a nationalist agenda, this has the potential to disrupt how business and information technology is done.

Now, against that backdrop of change in motivation you have a much more complex environment to secure, whether you think about it in the myriad of delivery vehicles that the cloud represents or the different consumption models from desktop to tablet to smartphone.

Now, of course, with this there is a lot of government regulation designed to protect not only the business, but also the individual. Now in that, as you think about the margins and the growth, remember businesses do not have a choice. They have to be compliant. And as they do -- as they work to be compliant, that represents cost and it also represents risk in the form of fines or reputational damage. So, it has moved from being an agenda that's sort of buried in the back room of IT to a business group, to a CEO, to a board level agenda.

So, what is our approach? What we've been doing is we've been quietly assembling a set of assets that build off of the security practices and approaches that have marked the last decade. The last decade, these approaches have been about locking your device, locking the data center, locking the IP address, locking you as a user through access controls and privileges. Our approach is about providing the visibility so that enterprises can see and, as they see, then they have the opportunity to understand and take action around it. And so, as we do this, that gives businesses the opportunity to improve their risk management, to proactively take action and harden the attack surface.

Let's talk a little bit about the market. This is a large market. If I size it just on the security side of things, and I'm not including compliance, you've got a $43 billion market growing double digit. And the way that I shaped it here is I did it just in what I'll call the products and the services. And I think as we look ahead you're going to see a very interesting shift in blend between products and services because many of these will be offered as a managed service.

Now, when you think about HP's opportunities and you look at the portfolio that we've got, whether it be the market-leading application security testing solutions or our market-leading security and event monitoring, or what you just saw in Autonomy, very good assets in their own right. But, we see a great opportunity for synergy not only in these individual products, but how we offer them as a managed service and how they can differentiate our own products. So, our security offerings can differentiate our printers, our PCs, our servers, our storage and our networking.

So, we start with good IP and a great customer install base. Over 2.5 billion lines of code have been scanned and secured through the SaaS offerings in HP Software. We have four Magic Quadrant leadership positions in the Gartner Quadrants. We have over 900 customers that rely on us today for security services. We have 9 of the 10 largest banks, 9 of the 10 largest software companies, 10 of the 10 telcos, and all branches of the US military rely on us to help secure and ensure the compliance of their infrastructure.

As we push ahead, this is about a $1.2 billion business and the opportunity that we see in these segments is to do a much better job of integrating them and a much more efficient job in going to market, both as SaaS offerings and as managed services to accelerate and differentiate through the combination of hardware, software and services.

Let me now switch gears and I want to talk about the converged cloud. So, those of you that have spent a lot of time in the IT industry understand this dichotomy well. What IT needs to do is constantly take cost out and more agilely serve the business. And by serving the business, it is about helping that person on the right, the end user, the customer who wants greater simplicity, better experiences and anywhere anytime access.

And in an industry that loves hyperbole, we hear like -- terms like cloud or big data or consumerization of IT or social bandied about. What does that all mean? What that means is we at HP believe that a new style of IT is emerging. A new style that offers the potential for customers to lower their cost, increase their agility and fundamentally better serve their employees and their customers better.

As we look ahead, we see four delivery models emerging to leverage this opportunity. We start with the traditional data centers and this will obviously continue and persist as a large and sizeable and important market to service. But, as that buildout in the traditional data centers occur, it's got to factor what is happening in these other delivery models, all the way to the right in public cloud and then in managed and private cloud, where each one of these delivery vehicles is differentiated by the service level agreements. The service level agreements, of course, are performance, availability, security, cost and compliance.

What does that mean as we think about our portfolio and how we intersect it? We're going to participate both in the build, because there is -- anytime there's a new style of IT emerging, there's a natural buildout that occurs. Buildout means additional buys of components and solutions. But, at the same time, we have the opportunity to intersect on the consumption side as well because we believe that businesses will not only build out themselves, but they will be very aggressive consumers of these services.

And the journey is going to be a hybrid one. While we're in the early stages of this definition of the market and how it takes shape, we at HP believe that it is not simply going to be a cloud world or simply a traditional data center world. Three years ago we started talking about this concept of a hybrid world. A hybrid world means that customers can leverage the investments that they've already made, but take advantage of these new delivery options as they drive greater agility and lower cost.

To do this businesses have got a choice. There are a variety of different approaches. They can say, alright, I'm going to take a little bit of this, a little bit of that, a little bit of that and try and integrate it themselves. Particularly early in a market adoption, that's incredibly challenging, risky and expensive. They could take a different approach, which says I'm going to bet on a single vendor. I'm going to, for example, assume that Windows will be everywhere, whether it be on the phone, in the cloud or the PC. And I associate the downside is, A, I might pick the wrong vendor; B, I might have a lock-in in a relationship that doesn't deliver the best experience for me. I could say this is altogether too hard and I'm going to rely on somebody else to integrate it or -- and this is what our belief is, is that, as the market matures, there will be a set of open standards and services and solutions that are integrated by design.

And as you think about our converged cloud strategy and as you reflect on the words that Dave Donatelli, Mike Nefkens, J.J. and George Kadifa talked about today, our approach is fundamentally about offering customers choice; choice in platform, choice in delivery model. It's about consistency and confidence. Consistency in architecture regardless of whether you use all of our hardware or just some of our converged infrastructure, whether you use all of our software components or pieces of it; consistency, but with confidence. Confidence because these CIOs, they're not off the hook. They're not off the hook on security, they're not off the hook on the performance and experience that they have to deliver for their businesses and their end users.

So, what does that mean in terms of the business opportunity? A couple headlines as you look at this slide. Look across the top row. First thing that's important is that the traditional IT infrastructure market as you know it is large and it will stay large for a long, long time.

The second headline is that, as you model these markets, there is a lot of noise about the right-hand side in public cloud. We love public cloud. We're an essential supplier for it. We're delivering a set of solutions there. But, the numbers in the middle around managed and private cloud, there's a lot of buildout that we believe and we're seeing happening within businesses.

So, how do we intersect and provide the best solutions for all of these segments? Think about -- what we do at HP is we provide best of breed components, whether it be the orchestration on automation and monitoring capabilities that George touched on in the IT Performance Suite, providing best of breed software components that let customers manage and monitor and orchestrate in that hybrid world. Best of breed hardware, whether it be the servers, the storage and the networking and the management layers that enable agile and simple provisioning. These are the building blocks for that cloud buildout.

Now, what we hear from customers is they want best of breed building blocks, but assuming that we are open and extensible in our architecture, which we are, they'd like integrated solutions. Integrated solutions so that they don't have to do that integration themselves and that's what we're doing with the cloud system enterprise and the cloud system service provider offerings.

Now, as we go down, there are a set of consumption capabilities that we offer as well. Some of you have seen us announce and deliver this year our HP public cloud offerings around content delivery and compute and, later this year, storage. The premise here is that enterprises want a service level agreement for their cloud, public cloud offerings. They need to have a guarantee around performance, around availability in a way that is not offered broadly in the marketplace today.

The other piece that I think is really important as you model and think about the opportunity that is in front of us at HP is what we can do in the services space. Mike Nefkens and Meg touched on this briefly this morning. But, enterprises have a huge journey in front of them to modernize the millions of enterprise application and Web services that have been built up over the last decade and we have tens of thousands of professionals that do just that every single day. They transform and they modernize the application and Web services portfolio of an enterprise.

The second piece of it is that they have a relationship with us in the infrastructure outsourcing world. The reality is that cloud is another form of outsourcing. And helping customers on that journey so that they can think about when they want to do private versus public versus managed, the existing relationships and expertise that we have position us very, very well.

So, let's talk a little bit about the competition and how that then -- how we compare and compete so that we get our larger than fair share in this market. I picked a couple. We could go on and on here. But I want -- we'll just take Cisco as an example. Now, when we compete with Cisco, generally Cisco only competes at the component level and they compete effectively only in one component. We believe, and as we compete and succeed, we believe that it is not just about the network. It is about the network plus storage plus servers plus the software that manages, orchestrates and secures it around.

We also believe that to solve this problem it's going to take not five different architectures that were architected and built through acquisition 15 years ago, but it's going to take a modern architecture designed and delivered for the needs of the 21st century. And the final piece is we believe that it is going to take somebody that's willing to go after the margin pool that they have historically had and that is exactly what we do as we compete and succeed against them.

Let's talk a little bit about VMware. VMware is an interesting one because we are, of course, their largest route to market for their hypervisor and they've done a very nice job in the hypervisor space. But, they've got to try and extend up not only in the traditional space, but go across to the cloud. And the course and choice that they're taking is one that is very, very proprietary and doesn't represent choice for the customer. And they've got a lot of buildout to do to build out and deliver the capabilities across the whole hybrid world.

IBM. IBM, when we compete against IBM we don't actually see them that much in the enterprise. We see them in the service provider space more. And the approach that they're taking, of course, is a service led one. This is really, really hard. But, we have the expertise and you're going to pay us a very large sum of money to deliver the services to integrate that.

So, how are we doing? Our converged cloud business, across all the different businesses, it's a $3.9 billion business today, grown 39% year over year. We are the number one cloud infrastructure vendor as measured by revenue in 2011. Our solutions, our cloud system solutions, 100% year-over-year growth; actually, a little over 100% year-over-year growth. But, I think as you -- as we think about the buildout, it's not only about the revenue results, but it's the innovation and the partner ecosystem that we're building. 400 -- 40 cloud agile partners. These are partners that are saying we want to take advantage of your platforms, your extensibility and certify and help deliver that value to customers.

And it's also about the expertise; the expertise that we have in enterprise services, the expertise that we have in our digital safe offerings where over 10,000 customers are storing over 50 petabytes of information with us to ensure that they have the right redundancy and compliance and retrieval rates. This is a big business for us and it is a business that we continue to see accelerating into the future based on our innovation, our integration and our go-to-market capabilities.

So with that, thank you very, very much. I think I'll turn it back over to Rob Binns and we're going to open it up for Q&A.

**Rob Binns:**
Great.

**Bill Veghte:**
Thanks.

**Rob Binns:**
Thanks, Bill.

Okay. So, we're going to move to the Q&A part of the agenda here. So, if you'll just give us one moment while we assemble. I'd like to as Meg and the team to come forward. We'll just get some logistics here with some stools set up.

While we do this, just a couple of points. You will see there are three or four people with microphones who will be running up and down the aisles. If you guys could raise your hands I'll do my best to spot you from here and then we'll navigate with questions and everything. And I would ask if we could kind of keep it to one question. Try and avoid the multiple parts, lots of follow-ups because I'm sure that there's a lot of interest. We want to get through as many people as we can in this session.

And so with that -- could I ask -- actually, can we have the house lights up a little bit as well because it makes it a little easier to see.

**Unidentified Participant:**
(Inaudible.)

**Rob Binns:**
Yeah, sure.

You're next to Meg. Let me just make sure -- Bill, you're on the end here. And George, if you can go to the other end.

**Meg Whitman:**
Alright.

**Rob Binns:**
Okay. So, can we get the lights up? Is that possible? Just makes it a little easier to see from back here. Okay. So, I'll work out what I can see. Can we start with Katy first?

**Katy Huberty:**
Thanks. Katy Huberty, Morgan Stanley. Meg, you talked about too many areas of focus for HP that impacted execution in the recent past across products, services and geographies. And so, my question for you is whether you considered or reconsidered the idea of divesting some of the non-core businesses so that you can really focus on cloud and information management and security and not take your eye off the ball because you're dealing with some of the businesses that aren't performing?

**Meg Whitman:**
Yeah. So, we are convinced that HP is better together with these four major lines of business that we now have and I'll tell you why. We are the only competitor -- if we can get it right, we're the only competitor that can go from the desktop to the data center, from hardware to software to solutions in a way that no one else can.

I'll also tell you, when we talk to customers -- you might recall last summer when we announced that we were potentially spinning the PC business, the customers were really unhappy with that. Our partners were unhappy. Even our big enterprise customers were unhappy because their view is that if we can do this right we offer a competitive solution that no one else can.

Now, the way you have to think about HP is we are a portfolio within a portfolio within a portfolio. So, within each of these guys' operating units, they are looking at different product lines and saying does every product line within software have to stay. Are there are lines of products in storage that we could actually phase out faster to sort of put more wood behind the arrow.

But, you might talk about storage and what you're trying to think about there or even in networking.

**Mike Nefkens:**
Sure. So, as you saw in the presentation we made earlier, we talk about the two primary architectures. And really, what's behind that is the elimination of certain products. We are sun-setting products that are going to go away so that we'll focus more of our resources on fewer products. Again, we think it's got great benefit to customers because we simplify what they buy and it's got huge operational benefits to us. Our salesforce has less to learn, there's less training for our TS organization, and we put all our R&D behind one arrow. So, you see us doing that in storage. In networking, when we did the acquisition we eliminated a lot of overlap products as well with, again, the idea of selling fewer products in greater volume and simplifying.

**Meg Whitman:**
So, in the near term it puts some revenue pressure on the businesses, but it's completely the right thing to do if we're going to simplify.

I mean, George, you want to say a word? You said you had 200 products in software.

**George Kadifa:**
Right, right. Exactly, because I look at Autonomy alone, it was also an aggregation of additional products and additional acquisitions and that's what we're going through right now, try to understand from a product point of view which ones we should bet on and which ones we shouldn't. I don't have the issue of supply chain in the sense that my supply chain is very simple. It's bits. However, back to Dave's point, we have to train the salespeople, we have to train our professional services people, we have to train our partners and that's a significant investment if the portfolio doesn't get more focused.

**Todd Bradley:**
And we've also done the same thing within PPS as we've looked at both our printing and PC portfolios. So, you've seen us move out of things that were not core to our printing business.

**Bill Veghte:**
And I would say in services the exact same thing. We are selectively engaging, as we talked earlier, in areas like workplace and network. And we're training all of our sales teams to focus on more of the higher value areas and less on those selective areas.

**Rob Binns:**
Okay, super. Thanks. Ben?

**Ben Reitzes:**
Thanks a lot. Ben Reitzes, Barclays. I've got a question just about the FY '13 guidance. You did a real good job talking about services and how that would be hit year over year, but PCs, there's supposed to be flat earnings and printing is supposed to be up $0.05 to $0.08. And I just think most people in this room might feel that that's actually aggressive given what we're seeing in the PC market with the declines and some of the trends in printing. And I was wondering if you could go into a little more detail, and maybe Todd and Cathy, how you get there with those two segments because we all know about services now. You did a good bridge there.

**Todd Bradley:**
Well, look, I think the clear thing in printing is, A, filling some of the product holes that we've historical had. When we look at the execution that we're bringing to market in the multifunction printers, where we basically haven't competed for -- or haven't competed aggressively for 7 years from a product perspective, that'll drive both hardware and toner growth. The expansion of ink in the office, as well as ink advantage to 82 countries, our history of the 10 countries we've been in has shown a good uplift; a good uplift in the sale of supplies, a good uplift in the sale of the renewal, if you will, of supplies.

As far as PCs, I think a flat number is appropriate for us as we look at the trends; again, for the whole PPS portfolio, not just PCs, so that includes workstations. It includes the new all-in-ones that aren't part of that number. Also includes from a PPS perspective the enterprise tablets that we've talked about. So, I wouldn't tell you there's certainty in what the market will do next year, the market overall. I think as we look at how we utilize the expanded salesforce we have, the compression in the number of SKUs that we're planning to offer and very, very aggressive execution, I think we're there.

I will tell you I'm not --.

**Cathy Lesjak:**
I can add to that if you'd like.

**Todd Bradley:**
Yeah. No, I was just going to make one --. Sure. I just want to make one market comment. I mean, we see lots of variation. We track about 10 different indicators or predictors, I suppose, of market size from some of you as well as the industry analysts as well as our key component suppliers like Intel and Microsoft. So, I can tell you that's a very, very broad range when you look at predictions for the industry next year.

**Cathy Lesjak:**
So, what I was going to say is that, in addition to a great -- or despite the fact that we have a great product lineup, the great new products in the PSG group and the IPG group, we still -- the underlying revenue for the fiscal '13 outlook is down year over year. So, it's not as if we're expecting that this great product lineup is going to allow us to leap over worsening macroeconomic

conditions or the weakness that we've been seeing in consumer and we don't expect that to change dramatically

And then I would say then in terms of well then how, Cathy, does that help us with the bottom line? It helps us with the bottom line because, obviously, we have restructuring efforts that were done in PPS as well. But, even more important for the PPS organization was the non-labor actions that we've been taking and the basic blocking and tackling around achieving operational excellence. PPS is the poster child and so that's helping us a lot in those segments.

**Rob Binns:**
Okay, great. Toni?

**Tony Sacconaghi:**
Thank you. Toni Sacconaghi from Bernstein. I have a follow up to that question, but from a different angle. So, I appreciate the waterfall. I think one of the things that wasn't explicit in there is what the net cost savings are. So, if I take your comments about what you said you would save from your restructuring actions, it's about $0.80 in EPS. Your waterfall said that you'd reinvest $0.15 of that. So, you have net savings of $0.65. So, if you didn't have the savings, your guidance EPS would be about $2.90. It would be down about 30%. The question is, how do I get there? That kind of implies a 10-plus percent revenue decline in order to get there and which is a considerable deceleration from this year. So, I'd like to understand that, please.

**Cathy Lesjak:**
So -- I'll start and then everyone can pile on.

**Meg Whitman:**
Yeah. Okay.

**Cathy Lesjak:**
So Toni, there's really three big things that are going on in our P&L. One of them, obviously, is the investments of $0.15. But, the other two are really around enterprise services. I mean, it's not just a margin -- I'm sorry, it's not just revenue down 11% to 13% in the enterprise services business. I mean, there's significant margin pressure as well. I mean, when you think about taking that business from making roughly 3% in fiscal '12 to 0 to 3%. And obviously, there's a range that we've provided in that waterfall. I mean, that's a huge hill to climb over.

And then the second one is in the EG group, the business critical systems revenue is expected to continue to decline materially year over year. And then, we're starting to have the bigger knock-on effect in the technology services space. Other than that, in the EG group I will tell you that it's not about losing share. We're -- we believe we're holding share. We're declining a little bit of revenue in the industry standards service side because we think the macroeconomic conditions are going to be tough. And that -- then obviously that top line puts pressure on the bottom line.

**Meg Whitman:**

No, I'd just add one last thing to that, which is we have also tried to factor in here from a top-line perspective macroeconomics. And what we have seen in Europe is a continued degradation from the beginning of the year and everyone that we talk to, our customers, our partners, are not bulling on what's going to happen in Europe next year. So, I have to say we're quite sensitive to that because it impacts our consumer business and it impacts our enterprise business. So, that would be another thing I'd add.

**Rob Binns:**
Okay. There's a few this side. Cole Binder (ph).

**Cole Binder:**
Thanks. It's Cole Binder from Credit Suisse. A question for Cathy. It looks like your cash restructuring will be maybe $1 billion higher or be even more next year and your earnings are coming down at least 15%. So, what else gets you to that free cash flow number of $5 billion? Is there some sort of working capital initiatives that are going to lead to a lot of cash? Because it seems like a stretch to get to it just given the headwind the cash restructuring would cause you. Thanks.

**Cathy Lesjak:**
So, the cash flow from ops we expect to be approximately $8.5 billion. And then, you've got CapEx that we are expecting to be $3.5 billion and that gets you to approximately $5 billion year over year. And that's pretty consistent with the kind of cash conversion cycle from a working capital perspective that we've been seeing most of this year with 24 to 26 days. Now, I'll tell you that I'm not particularly happy with 24 to 26 days. I think we've got to do better than that, but that's what's built into the model.

**Rob Binns:**
Okay. We'll stay that side. Mark?

**Mark Moskowitz:**
Thank you. Mark Moskowitz, JP Morgan. A two-part question. The first part for Todd and then the second part for Meg. It comes back to the PC business, just in terms of kind of the backstop that it does provide for the bridge for 2013 EPS guidance.

Todd, just want to understand if you can help us figure out what your assumptions are behind the PC growth in terms of what are you assuming for smartphone and tablet refresh rates? Are folks going to refresh their tablets and smartphones two or three times, four times, one time before they refresh their PC? Just want to figure out what the impact could be on the PC and the printing market.

And then bear with me. Meg, the other question is around smartphones. Do you think that HP needs to have a smartphone offering to remain relevant in the digital age as far as PC, tablet and smartphone? Thank you.

**Meg Whitman:**

Yep.

**Todd Bradley:**
So, our focus in 2013 has been the introduction of tablets. Clearly, with the actions taken August 18th, that's been a huge product hole for us. The introduction of the tablet products you saw here today are what are incorporated into our growth numbers. As far as smartphones, we haven't look a lot -- we haven't looked at all at smartphone growth rates in this plan. We've looked at growth for our tablets; for our tablets broadly across the world. And frankly, we see good growth with our ultra mobile products, ultrathin products.

**Meg Whitman:**
I'll just say -- I'll answer your question about smartphones because I did create quite a stir on that, I guess, on whatever program it was the other day. I would say the other thing that we're very excited about is the consumer market, I would argue today, is quite well served by the tablet that is in the marketplace today from Apple. I mean, the tablet market is largely an Apple market. So, when we designed our tablets for consumers, we said what is something that's uniquely HP and you saw the convertible that Stacy and Jim showed earlier. But then, when you think about the enterprise and business market, this is largely white space.

Yes, in the C-suite there are Apple devices that are there, but every CIO I talk to wants to have a Windows device, backward compatibility, the ability to control those devices from a security perspective. And I think it was on your slide, Todd. I mean, the growth rate of enterprise and business tablets is in the high -- the double digits, 30 -- 20-something. I can't remember the number, but it's relatively fast.

Now, this is going to take a little time because as we learned last summer, you get these tablets into the enterprise, they play with them for a while. It's a relatively long sales cycle, but when it hits I think it should hit pretty big, which is why I think that will contribute to the '14 financials, perhaps even more than it does in '13.

Now, with regard to smartphones, what I believe is that we don't call our business the PC business, even before I got here. We called it the Personal Systems Group. Think about it as personal compute devices. We've got to be able to go from the workstation to the desktop to all-in-one to laptops to hybrids to tablets; ultimately, in my view, to smartphones because in many countries the smartphone is the compute device for individuals.

Now, we've got to crawl, walk, run at HP and we don't have any plans to introduce a smartphone in 2013, but we've got to start thinking about what is our unique play? How do we capture this element of the personal compute market in a way that will allow us to span that full spectrum in the future? Because I believe if five years from now we don't have a smartphone or whatever the next generation of that device is, we're going to be locked out of a huge segment of the population in many, many countries of the world and our franchise will suffer and our financials will suffer.

**Rob Binns:**
Super, thanks. Can we do Bill?

**Bill Shope:**
Okay, thank you. Bill Shope, Goldman Sachs. I have an extension of Ben's question earlier, specifically on the printing segment for Todd. Looking at the inkjet strategy here, what gives you confidence that some of the secular pressures you guys have talked about are contained, if indeed you do believe that?

And then secondarily, on your strategy going forward, things like moving into business inkjets, shifting the discounting mechanism away from hardware and towards supplies, frankly, what gives you the confidence that that's going to work now? Because I think most of us in this room have heard about business inkjets for roughly a decade. And then, shifting of discounting from hardware to supplies, we saw that with Epson first, saw that with Lexmark, and these things just haven't worked. So, I understand how they could certainly help the business if they did work. But, if you could give us some color on why you think the environment's changed and will allow for that to counter some of the other secular pressures.

**Todd Bradley:**
Well, first and foremost I think you have to look at where we have been successful with Ink Advantage to date. We're not saying that we are going to do it everywhere in the world. I think clearly in the mature markets the ability to execute that is limited to not going to happen. Steve's point and the point of the strategy is to execute in those 82 markets globally that are less developed, where we're not going to replace share that we already have, but we're focused on new customers, a new price point and the ability to grow consumption in those markets.

So, I'm basing it on a year's worth of actuals, that we went ahead and expanded this to the markets that we've expanded to. This isn't a -- I guess you're implying a paper exercise. This is the result of deep research and actual results in 10 of these 82 markets we're already in, including --.

**Cathy Lesjak:**
And in a handful of those countries we've had a 3-year test market going. And in fact, one of the first things that Todd and I did is we looked at this 3-year test market and we said pull the trigger on that thing. I mean, we're done, we see it, we got it. So, I would be shocked, actually, if Ink Advantage didn't pan out the way we'd seen in those original 10 countries.

**Todd Bradley:**
The second piece as far as ink in the office, I think Steve is -- Steve and his team have a suite of new products that have also been tested and deployed in some smaller deployments, smaller locations that have the same capabilities, the same speed, lower price. So, I think we have some -- we're cautiously optimistic on the success that we'll have, especially when you layer those products into our salesforce, into our managed print service capabilities, and put some of the document flow Autonomy software that you've seen.

**Rob Binns:**
Great. Super, thank you. Where do we go? Shannon.

**Shannon Cross:**
Thank you. Shannon Cross, Cross Research. A question for Meg and Cathy with regard to reinvestment. You made the decision to reinvest a majority of the savings back into the business. So, given that, how are you determining where the investments are going and how are you tracking their success? And then, finally, if business deteriorates further, are you willing to cut back on the reinvestment to make sure we don't have another earnings reset? How are you sort of balancing that?

**Meg Whitman:**
Yeah. I'll take it and then turn it over to Cathy and then I might ask you how you're thinking about rack and stacking your investments in EG.

But first of all, we are very conscious of what has been happening over the last couple of years which is we have had a misalignment between revenue trajectory and costs and we are working to get that back into line. At the same time, trying to position HP for the future, without the quick fixes, without the blunt instrument that has been used at this company for a number of years. But, each of the business units has a contingency plan, that if revenues do not come in the way we anticipate, we have to react. So, the short answer is, yes, we will react to this because we understand what's at stake here.

So, my view is, if you think about 2013, as I said, as a fix and rebuild year, if we hit roughly these revenue numbers that we have laid out for you -- and we may do better in some businesses, slightly weaker in others, then we will hit our plan for this. But, if something happens macroeconomically, Europe completely melts down or there's some other issue, we will take action because we understand we've got to get costs in line with revenues.

**Cathy Lesjak:**
And I would just add on the specific question at the beginning around will we forego the $0.15 of investment, we are doing everything we can to protect that because it is -- those investments were chosen as the critical few in an environment in which we knew we were going to end up having to guild 3.40 to 3.60. So, those are the ones that we absolutely, positively have to do for the future of Hewlett-Packard. So, I don't see us as cutting those investments. I see us as finding cost reductions in other place to keep our costs in line with our revenue.

**Meg Whitman:**
Yeah. I mean, each -- I'd ask each business unit to think through what are the critical few investments that can be game changers for their businesses. And you might just talk a little bit about Moonshot and some of the other things.

**Mike Nefkens:**
Sure. We had a very rigorous process where we went around and said where are we going to make money from three years from now? What are the attractive markets? Where does HP have an advantage? Where is our IP going to differentiate ourselves versus everybody else and then we worked backwards from there. So, we have a rank-ordered, priority list. This is our number one

investment. This is the revenue return and profit return we see on it and, if all else fails, that's the one we fund above all else. And we did that in order all the way down across the business unit.

So, that's the process we use. We always, of course, reevaluate it to make sure that the priorities stay the same, which they in enterprise stay fairly consistent. And then we funded the budget accordingly to make that happen. So, not only does it help us in '13, but in '13 we're doing all the real important work to make sure we have the right products for '14 and '15 that again drive more consistent success for the company.

**Meg Whitman:**
And this is where I'll underscore consistency of leadership. The problem that's happened to HP over the last three years is a new CEO would come in, tumble the investments. Revenues wouldn't come in the way they thought. There would be different decisions made. And we're now joined at the hip. We have a point of view about how we want to run this company. We, by the way, will certainly make adjustments if things don't pan out the way we have, but we are on a path and we are going to stick with this path. Because what doesn't work in the enterprise space -- I'm not even sure it works in the consumer space -- is this sort of put in the R&D money, take it out. Make this bet; ah, just kidding, we're going to make this bet. You've got to -- these are long-term investments. Our customers make long-term investments here. And this start/stop of the last three years, you can't run the railroad that way. You don't end up with the products that are ahead of the market. You end up either not delivering the products or someone else gets there first. And as you all know, the benefit of first mover advantage in these market segments is absolutely enormous.

**Unidentified Participant:**
I think the other piece, while it's not R&D/product related, is the reallocation of demand generation dollars away from a contra spend, which is an essence of funded discount, to demand generation activities. And I think that's going to represent a very material change for us as we go into -- we've started to do it now. You've seen the push on both value and quality, especially in our ink and toner products and you'll continue to see that throughout the year.

**Meg Whitman:**
And fundamental to that is the fact that when you put it into contra and discount, you're basically competing on price. When you get it into marketing and you drive your differentiate value, you get it back in price.

**Rob Binns:**
Great, super. Keith.

**Keith Bachman:**
Hi. Keith Bachman from Bank of Montreal. I want to ask about services and revenues and costs. On the revenues, it seems like there's been a pretty material degradation from recent comments from HP if we look back over the last couple of quarters, as well as your competitors. CSE is going through a restructuring with significant defense department exposure and yet is guiding down revenues roughly modestly. Capgemini with significant European exposure is talking about

revenues growing 1% to 2%; Accenture, 6% to 7%. So, there's an enormous delta between what you're talking about in your revenue growth rate and the competitors.

And as part of that, I appreciate the runoff on the accounts. But, runoff accounts happens to every company, every year, every quarter. Is there something in there that should be an additional flag, a concern for investors as we look to your revenue growth rates? In other words, is that another red flag to execution, something along those lines? So, if you could just speak to why there's been such a significant degradation between recent comments and your competitors and then, secondly, what's the cadence of the growth of operating margins that gets you from 0 to 3 to 7-plus percent. How long does that take? Thank you.

**Bill Veghte:**
Good. So, I'll start on that. No, absolutely on the revenue side we are, as we described in our presentation, seeing some extraordinary events where have four or five contracts that were signed in the '08, '09 term that are all coming up. And for various reasons, those contracts will either be going back to the customer end source or what. So, that is a significant activity that's happening and it's causing -- I think the number was 5% to 6% of the degradation.

The other item that hit us was the last two or three years we were overly selective in trying to push certain offerings in and our book-to-bill ratio was well below 1, which we obviously need to be 1 or 1-plus in order to hold our revenues. So, the combination of those two items have put us in the situation we're in for 2013 and that is causing the 10% to 13%. We don't see this as an ongoing trend. Again, these are just two things that hit us right at the same time and we do believe that in a 12 to 24-month period that we can get this business back to growth rates of 3% to 5%.

**Meg Whitman:**
Do you want to add anything to that?

**Cathy Lesjak:**
No, I think he did very well, actually.

**Meg Whitman:**
Okay, good.

**Cathy Lesjak:**
Are you going to address this how to get to --?

**Meg Whitman:**
I think -- the only thing I would add to that is that, as you know, in-year revenues are largely sold to existing accounts by the account executive who is in charge, whether it be at client X or client Y. And when we disaggregated the responsibility from the account executive -- and I don't know exactly when this happened, but probably three or four years ago, we took the revenue accountability out of the account executive's hands and, oh, by the way, we took the cost accountability out of that account exec's hands. And if those account execs with our top 200 customers are not selling in the -- through a normal course of events, by the way, those add-on

projects are longer margin typically and that is how you get your book-to-bill ratio above 1. And when we took that away from the AEs, you saw, as you might expect, less interest in selling those in-quarter, in-year contracts. So, we are changing the entire compensation system for the AEs. We are going to re-empower them and have a significant outreach to those top 200 customers through those AEs and through our executive team.

**Rob Binns:**
Great. Super. One down in the front here.

**Meg Whitman:**
I will say that I've worked at probably, I don't know, 8 major companies in my career and I've never seen a business that is less instrumented. I thought I would come into HP and I'd have my trading dashboard where I could see what was happening in servers in Imia or PCs in China. We don't have that in a way that allows us to pinpoint the channel -- the problems that we have in the business and, worse yet, the early warning system.

So, Bill, you might talk about the dashboards and scorecards that we're putting in place. By the way, they are, to some degree, in place in the business units, but not in a uniform way. And so, you might just talk about some of the work we're doing --.

**Bill Veghte:**
You bet. I --.

**Meg Whitman:**
That you've been doing with each of the businesses.

**Bill Veghte:**
I think as you reflect on the strategies you heard from each one of the business groups, there's clarity of strategy in what they need to accomplish. And then, we'll just use Dave's business as an example. He pivots by product line, by geo, by route to market. So, within -- we'll just take within servers there are multiple types of servers. Then, he's looking at it by the geo and then by direct versus channel. And that gives him a very quick heat map of where he's tracking and where he's not and where he's got issues. We'll look at it in George's business. We'll just use software as an example. He's looking at his pipeline, his linearity, and then that -- what that means in closed rate. And he'll look at it by product line, again, by geo and again by route to market.

So, working across each one of the business groups and then with John Henshaw (ph) in our IT organization to provide the right visibility and dashboards effectively to measure it, whether it be on revenue, market share. We've got a set of scorecards as well on our innovation agenda. One of the things that Meg opened today on was, boy, we've got a lot of great innovation. We need to bring it to market. So, giving at the company level and then at the business group level clarity on those roadmaps.

**Rob Binns:**
Super.

**Unidentified Participant:**
That's good.

**Meg Whitman:**
And I also think as we introduce new products -- okay, so say the NVX2 or the Elite Pad that you saw or Moonshot, what do we think year one volume's going to look like and then what was actual versus reality? And how do we get better at that over time? We've got to get to a three-year planning cadence where each year we can say, alright, so if we planned that to 2014 this year, next year what are we saying about 2014 and what's the difference between what we said this year and what we said last year? At least since I've been here that process -- and I think, again, if you go to the CEO churn, every CEO has a different point of view about how they want to do this. They come in, the situations are different. And so, I think we've got to get a cadence here that is befitting of a company of our size and scale.

**Rob Binns:**
Great. Thank you. Okay, Aaron?

**Aaron Rakers:**
Yeah, thank you. Aaron Rakers with Stifel Nicolaus. I want to go back to the fiscal '13 bridge a little bit. I know it's been beat up here, but the enterprise side of the house, the enterprise group you talk about $0.05 to $0.12 of impact. I'd like to understand that in the context of what you're assuming from a revenue perspective considering that it seems like you're going through that cadence of a product refresh cycle in the industry standard servers. You've got some good things going on in storage relative to what you're assuming on the margin side and how that bridges itself out.

**Meg Whitman:**
Do you want to start or do you want me to start?

**Cathy Lesjak:**
I'll start, Meg.

**Meg Whitman:**
Okay.

**Cathy Lesjak:**
Yeah. I think the big thing you see there, as you heard us mention before, is the impact we're seeing in BCS. So, significant decline. We had a significant decline this year in '12. We anticipate that decline is not going to get better in '13 and that impacts us both on the product sales side, as well as on the TS side, and then ultimately on the margin side. So, that's a big impact there. And the rest of the businesses as we spoke about, our plan is to maintain our gain share depending on the product. And the whole call there is what various analyst groups are calling for market growth next year. We still see headwinds in Europe. We still see headwinds in China. And we're living with those now and there isn't a big prediction that that's going to turn around quickly.

**Meg Whitman:**
The other thing I'd say is we're doing -- Dave's leading a great charge in hyper scale, but this is a very rapidly growing part of the business and we're getting better every single bid on hyper scale. But, hyper scale has margin pressure and so we've got -- we are working to sort of recreate a business model there and be remarkably competitive. But, that's going to be a little bit of a journey through 2013 in my view.

**Rob Binns:**
Okay. Super. Thank you. Any at the back that can --?

**Meg Whitman:**
Way in the back.

**Unidentified Participant:**
We can't see.

**Rob Binns:**
Yep. Super. Thank you.

**Brian Marsh:**
Thanks. Brian Marsh (ph) with ISI.

A question for Dave. I was wondering if I could get your views on what you think the -- from a qualitative perspective, obviously, the impact of sort of the incumbent switching vendors if STN actually gets some traction and success over the next, say, 3 to 5 years? Thanks.

**Dave Donatelli:**
Sure. I think the big impact is that it's opening up people's architectures for the first time in a while. So, as you heard me mention before, in the networking business, particularly around enterprises, which is where we focus, we think we have turned it into a two horse race if you look at market share. And the reason behind it is not only our products, but our scale and our brand enables us to do that. And that's led to the success you've seen so far. But, I think the big opportunity now going forward is that we had that success within kind of the current model. And with SDN now customers, for the first time, are looking to change their model. And as you know, generally speaking, when people change their model they then are much more open than they otherwise would be to look at new and different ways to do things and new and different suppliers that they might not have considered in the past.

So, I think it opens up a big opportunity. Again, most customers are telling me it's not if, it's when. So, it's not going to happen like next quarter, but it will happen over the next several years. And we're pleased that we have such a comprehensive offer in already that I think is going to open up, again, new opportunities that we wouldn't have otherwise seen under the old framework.

**Unidentified Participant:**

And I think the other thing I'd add on that is you evaluate, there's the customer pressure that Dave highlighted, then there is the pressure from the people that are writing those applications and web services. Historically they've had great programmatic access to the server, but they have not been able to do anything on the network. So, as Dave and the assets, for example, that we announced yesterday in New York, boy, the ability to be able to put that into program and have access to it in a richer way, it's so compelling and so people are going to grab onto that in a way that will put more pressure on the incumbents.

**Rob Binns:**
Right. Super. Anymore? There's one down in the front here.

**Rob Sierra:**
Thanks very much. Whoa. Thanks very much. Rob Sierra from Evercore. With the focus on rebuilding the balance sheet, Cathy, I think you gave a target of getting back to zero net debt.

**Cathy Lesjak:**
At the operating company level without the HP financial services.

**Rob Sierra:**
Okay. So, that was one question. And then, I guess, beyond that, I mean, have you put any -- has there been any consideration of actually cutting the dividend or is that absolutely off limits? I'm just trying to get a sense of how important it is to fix the balance sheet relative to dividend. And I guess, lastly, why buy back any stock at all until you got to that target? Thanks.

**Cathy Lesjak:**
So, our focus is on rebuilding the balance sheet with the assumption, and all the modeling has been with the assumption that we continue to pay our dividend and we do minimal share repurchase to offset dilution from employee benefit plans. That is -- those two pieces aren't going to change materially how quickly we get to a roughly zero net debt position at the operating company level. So, all the modeling's been done with both of those in.

**Rob Binns:**
Okay. I think -- anymore? I think Steve had one at some stage. Yeah? Yeah, (inaudible), yeah?

**Amit Daryanani:**
Thanks. Amit Daryanani, RBC Capital. I just have a question. When you look at the restructuring programs you guys are undergoing today, when you announced it a few months ago did you guys expect the revenue -- level of revenue declines you were talking about in fiscal '13 or was that a much lower number? And does that mean you have to actually potentially announce another restructuring down the road?

**Meg Whitman:**
You want to take that?

**Cathy Lesjak:**

So, at the time that we announced the restructuring we did think things were going to be a bit better than they are. We had expected to be able to invest a significant portion of that -- those restructuring savings back into the business incrementally to what we're doing in the outlook that we've provided today. And part of that is just the continued deterioration from a macro perspective has definitely put pressure on our businesses, as well as some of the changes that are going on in ES and some of the runoff that we hadn't fully expected at that point in time.

**Meg Whitman:**
Yeah. I mean, I think what Cathy said is exactly right. And at the same time, the journey of my last year here has been -- I think I called it in my talk the peeling of the onion. And as I dug into each and every business with all of these executives, some of them were new, some of them here a long time, as we understood some of the fundamental under-investments in IT. I mean, when I came here, both Bill and Todd and Dave said, let me tell you about quote to cash, let me tell you about our CRM system, let me tell you about our HR systems. But, until you see it up close and personal you don't actually realize the knock on effects of a quote to cash system that puts us at a fundamental competitive advantage in turning quotes for customers.

So, I thought that we might be able to stretch those IT investments over a longer period of time. I came to the conclusion that we absolutely cannot do that, that this is just continuing to put us behind the eight ball and we have to make these decisions because we have to get better faster.

In our ES business, I mean, they've been struggling for four years without a labor demand system. Okay, I do not know how you want to service this business without a robust labor demand system, meaning where are your people, what are their expertise and how do you match people to customers and customer assignments because the key is as customers are running off or our assignments are winding down, then where do you redeploy your people? This is not the automated process that you would imagine that it is at Hewlett-Packard. And until we fix that it's going to be very hard to manage the business. So, we have actually accelerated the IT investment to get the results in 2013 because we can't continue to live like this. So, that might be just one example of where we just decided some of these investments you couldn't just do a three-year build on these things, we have to get them done. And so, that's part of (inaudible) I think, as we saw some deteriorating business results. We didn't take the pedal off the gas in terms of some of these investments because it's a self-fulfilling prophecy.

**Rob Binns:**
Okay, we have time for a handful more. Steve?

**Steve Milunovich:**
Steve Milunovich, UBS. Yeah, so I don't understand why, if a couple months ago making all these reinvestments was the right thing to do, even with business deteriorating why you pull back now. Does it make that much difference if you're earning 300 or 350 at this point? Did you decide some of those investments don't need to be made because you're refocusing a bit more or -- particularly since you've kind of given up on the short-term and you're making, I think, the right decisions about the long-term, why not stick with that initial plan and just say the hell with earnings in the short-term?

**Meg Whitman:**
Well, I'll let you answer that as well. I mean, this is always a balance, right? I mean, this is what business leaders do is they try to make the right tradeoffs. And so we're making the tradeoffs of what are the absolutely critical investments? Where do we think we are seeing product runoff versus where can these products that we're investing in today fill the hole this year and next year? So, in the end we do all the analysis and then it's a judgment call about what we think the right thing to do is in terms of how our employees feel about the company, how our customers feel about the company and making a -- sort of a balanced tradeoff of what we think the right thing to do is.

So, I think we've struck the right balance. Obviously, the proof will be in the pudding at the end of this year, but the real proof will be in 2014 and 2015 if we follow that journey that I outlined at the beginning.

I don't think I have anything else. It would have been exactly what I said. It's all about balance and --.

**Rob Binns:**
There you go.

**Meg Whitman:**
I'm sure that you're making the right set of tradeoffs.

**Rob Binns:**
Right. Super. Thank you. Anymore?

**Unidentified Participant:**
(Inaudible) to the left. Right there.

**Rob Binns:**
Yeah, on the left. Yeah?

**Nigel Waterfall:**

Nigel Waterfall (ph), (inaudible) Partners. I just wanted to ask a question about printing again and your chart about zero growth in hardware. When you look back, clearly there's a very large cyclical element to the top line in printing. And if you look back at '08 and '09 you saw very, very large declines across the industry in that business. You're seeing slightly smaller, in fact, declines at the current situation, yet the sell side is absolutely obsessed with the fact that it's all structural. Could you give us some more insight, please, into how much you think is structural and how much you think is cyclical?

**Dave Donatelli:**
Well, I think we've covered this pretty deeply. I think, clearly, there are shifts in what people are printing. In our consumer space, clearly, we see less things like home photo printing. That was a

big driver in that timeframe. I think our own failures to execute in things like the multifunction category that we've talked about, our ability to now balance ink in laser and aggressively, if necessary, compete in different markets in different ways I think are all opportunities.

As I said earlier to somebody's question about ink in the ink advantage, I think the test that we -- the test -- I won't say the test, the countries that we've been executing this model in have executed extraordinarily well. I think it's incumbent on us as industry leaders to look at those categories that are going to provide growth and execute to those.

I don't know, Meg, do you want to --?

**Meg Whitman:**
Yeah, I'll just add one last thing because I've been deep in printing since almost I came into HP because I looked at the situation in which we found ourselves. I said 30% of the operating profit of this company is in printing. I think I'll go there and try to figure out what's actually happening here. And I think it's a combination of cyclical and secular.

So, on the consumer side, and I think Todd's slide showed we anticipate roughly a 3% decline each year in consumer printing unless we as the industry leader do something about that. And by the way, that's what industry leaders do, we try to figure out how to make printing more relevant to each and every one of our customer segments. And I do think this ability to print anywhere, anytime could actually -- and from mobile devices could make a meaningful difference. But, I do think the consumer segment is printing a little bit less every single year.

On the commercial side, you see actually a 4% growth in printing and we need to run after that business. But, it's true that our ink sell through and our toner sell through is weaker in Europe than it is in other parts of the world. And that is the part that I think is tied to cyclical where -- when the economy is not good consumers print a little less and enterprises try to clamp down on their folks printing.

So, I think it's a combination. It's a little hard for me to say, listen, at 75% cyclical and 25% secular. I think it varies by region and it varies by customer type. But, there's certainly no question in Imia (ph) that we are seeing the same sort of sluggish sell through of both ink and toner that we've really seen since the beginning of this year. And we keep working down in channel inventory and then it works itself up again. So, I think we're going to -- and this -- that's part of the reason that we're not forecasting robust growth in supplies in Imia next year because I don't think the economy's going to get any better. I hope it does because we could use a tailwind here on that business, but my view is the conservative way to plan this is Imia continues to struggle for most of next year.

**Dave Donatelli:**
Look, I think the other thing with the breadth of our -- the breadth and scale of our products, the ability to make printing easier, to facilitate that, the five things you want to print from your cell phone today, to have your device walk into a building and auto discover the web enabled printer to

connect to I think are all things that we need to do and we need to aggressively deploy in our own hardware, as well as t hat of the ecosystem.

**Meg Whitman:**
Yep. I'll say one last thing about printing, because I'm pretty bullish on this business over the long-haul for the following reasons. We are the big leader in this business. We have an IP stack in ink that is second to none. And by the way, others are dropping out of this business. You see competitors dropping out of ink. And so, we have the opportunity to sort of consolidate the market and then act like an industry leader. And many of you know I started my career in the consumer business and what industry leaders do is they figure out how to grow this category. They don't just sit back and sort of say, well, woe is me. Not happening. You actually figure out what you're going to do to grow these categories and that is incumbent on us as the industry leader. And we have a great opportunity to really consolidate here as we watch some of our weaker competitors fall by the wayside in what's a pretty tough market.

So, I think we're really well positioned in our printing business. It's been a tough year or two, but listen, I feel really good about the plans that Todd and his team have in place, the product pipeline, the marketing. These ought to make a real difference.

**Dave Donatelli:**
I guess Meg and I are playing ping pong on this question, but that's okay because it's an important question. The other segment that we will attack very aggressively are the refillers, be that refilling done at a retailer or all the way to the extreme of the counterfeiting that we stopped in the Middle East this week. So, the messaging, the go to market efforts, the aggression around both the quality and value, value being price, price for what you get of our products is unprecedented and unmatched. And I'm sure we will take some grief from some retailers as we, in essence, go and compete with them aggressively in the marketplace, as we move those contra dollars to HP demand generating dollars. But, so be it. We'll let the customer decide and we'll make sure they have the right information to select our products.

**Meg Whitman:**
And let me just pull the lens back here a little bit. One of the reasons that I talked about it in one of my earlier slides this morning was the transition that HP has made from a printing company to a diversified IT technology company. I mean, that is a remarkable transition over a 10-year period. And in the end I think that's a huge advantage because let's say there is ink softness in Europe. Okay, when we are at full strength, when you have a portfolio like this, some things are doing well while others we have geographic balance, business unit balance, customer versus enterprise balance. This ought to be a very balanced portfolio that works extremely well in good times and in bad. And one of the things I think we've got to do -- how many times have you seen articles written about HP, it says, HP, the world's largest PC maker, said something, something, something. We've got to start to change that opinion.

We love our PC and our printing business, but as I said, in what role does each of those businesses play? The two growth engines of our company are going to be the software business and the enterprise groups business, especially as Dave takes over both the financial accountability as well as the operational accountability for TS. I mean, this is such the right thing to do. It required more transparency than we've done in the past, but the conclusion you and I came to was so be it because these are -- it is the right thing for Dave to be managing TS and putting these products together as we go to market.

So, I think we've gotten some benefit. Boy, I'm looking forward to real benefit next year as Dave takes over the financial management of TS as well. So --.

**Dave Donatelli:**
The other benefit of TS is the fact that as we've made this transition the TS assets that supported PCs and printers to some degree have now moved into PPS.

**Meg Whitman:**
Right.

**Unidentified Participant:**
Right.

**Dave Donatelli:**
So, the cost control and the focus on that, not that there wasn't good control before, but a much more tactical, almost instrumented approach to this as it relates directly to a purchase or a support call. That transparency, I think, is going to be very, very beneficial.

**Rob Binns:**
Great. We have time for one or two more. Brian?

**Brian:**
Just a quick balance sheet follow-up for Cathy. Why is zero net debt the goal for the company? Why shouldn't the business have some debt, especially with rates so low in your EBIDA, likely to stay above $10 billion for the next few years?

**Cathy Lesjak:**
So, I think the -- that's a kind of a shorthand way for saying that our target credit rating is a mid-single A and that getting the operating company net debt position back to what it was right before we bought Autonomy (ph) when we were a mid-single A credit is where -- is just shorthand. Is --I said roughly net zero. So, I think it's plus or minus a bit.

**Rob Binns:**
Okay.

**Unidentified Participant:**
Way in the back. Way in the back.

**Rob Binns:**
Long way at the back and then maybe one more after that and then we'll call it (inaudible).

**Unidentified Participant:**
Yeah. I have a question on Windows 8. How do you see this product cycle playing out? Is it going to be led by tablets, ultra books and/or convertibles? And also, how does Microsoft's own participation factor into your thinking? Thanks.

**Unidentified Participant:**
I guess that's mine. I'm not sure what you mean by Microsoft's own -- oh, you must be talking about Surface.

**Unidentified Participant:**
Surface.

**Unidentified Participant:**
Look, Surface doesn't really enter into our thinking a great deal at all. It's a very limited product with limited distribution. I think it was an attempt to showcase what Windows 8 will do on a tablet. I think the whole product refresh cycle is going to enable new capabilities in our PC environment, new capabilities driven by Touch, driven by even greater tools around security. I do think at the same time when we look at products like the Enterprise Tablet we showcased, that tablet will be focused on the enterprise. The aspect ratio doesn't make Windows 8 real effective on there. But, the focus was the customer. The focus was the ability to view a PDF file or a document without having to scroll. The focus was on the fact that the Snap feature on Windows 8 doesn't work yet with Outlook.

So, I think the resources Microsoft will bring to bare around marketing Windows 8 should lift the industry. I think it has very unique excessive capabilities and innovation in it that will help lift the consumer -- lift the industry, but I think it's going to be predominantly in the short-term a consumer lift as opposed to a broad industry lift.

**Unidentified Participant:**
Yeah, I think that's right. I mean, just sort of building on that is -- those of you that have followed the PC industry for many years know that it is a pretty darn exciting time because whether it be the board layout and chip set changes that Intel's made, the delivery of Windows 8, the fact that you've now got meaningful competitive architectures with ARM and with Android on the software platform side. Boy, I mean, the question earlier about how to think about PC growth rates is that convertible, is it a PC or is it a tablet. Traditionally, if you're a Windows PC user -- and some of you in this room here you made a pretty significant tradeoff in the accessibility of the device to have the compatibility of those applications.

What Todd and Stacy showed earlier was effectively diminishing that compromise in a huge way. And so, as we think about -- as we think about the roll out of Windows 8 we think it's an important milestone in the industry because we need Windows to have Touch. We think it unlocks a set of innovations and showcases a set of hardware and software integrations that HP has historically uniquely done and continue to uniquely do in that product lineup, whether it be the all in one. Just think about the curve bell and what that means to do in hardware to get that curvature or in the convertible where you're effectively putting the whole board and compute in the display surface and then very easily snapping in to keyboard. Great opportunities for HP to differentiate and provide a higher quality experience. But, we need Microsoft, we need Intel, we need ARM, we need Google pushing the envelope on those innovations so that we can do our thing.

**Unidentified Participant:**
But, the other thing with the tablet, and Bill made a good point that I should have stressed more when we talked about the enterprise tablet, but what we've focused on is how we broadly support the enterprise. The backward compatibility of applications. The accessibility. So, if there is a requirement to access the board, the chipset in that tablet, the enterprise can open it and access it as opposed to many of the models where you have to send it back in or you carry an inventory to provide support. So, we've taken -- our guys have done a phenomenal job of not just taking customer input, but turning that input into a product.

**Rob Binns:**
Alright, great. Super. Thanks. Meg, you want to --?

**Meg Whitman:**
Yeah.

**Rob Binns:**
Make a few closing remarks?

**Meg Whitman:**
Yeah, I'll just make a couple of wrap-up comments here.

So, if there were a couple of takeaways from today, first, I would like you to appreciate that we, I think, have a real handle on what the challenges are in front of this company. And I think we have a very clear eyed view of what those challenges are and we have a plan in place to take on those challenges. And whether it's instrumentation or the services business or our forecasting tools or our focus on cash conversion cycles, we got the problem nailed and we have a plan in place.

The second takeaway I'd like you to remember is in the end this company comes back because of the great products and services that we deliver. And we are making those investments in R&D. We have accelerated the focus on products and services. And whether it's store once or three parts or FDN or our new products in the PC space or our enterprise space or some of the software products that George showed, we are really focused on products and services. And second of all, we are working very hard to get our go to market telling motion in a way that allows us to sell these products in a cost effective way, the way customer want to buy them.

And then, last but not least, we understand the necessity over time to align revenues with costs on a consistent basis and that operational excellence needs to be a part of the DNA of this company. We need to get better every single year. It is a never ending journey. And we are completely committed to it.

And then, lastly, where I ended my talk this morning, the right people in the right job at the right time with the right attitude with a team focus and consistency of leadership. That is what we are committed to because, as I said, there's a lot of ways to skin a cat in business, but what you've got to do is you've got to have a very clear eyed strategy for the company, for the business as a whole. You have to have the underlying financial strategy and an investor friendly capital allocation strategy. And then, you've got to stick with it. You can make adjustments as things happen in the marketplace, but you have got to have a focus where you see things through, and that's what we aim to do. And as I said, I wouldn't bet against HP people. I wouldn't bet against our innovation and product engineering DNA that is so much a part of this company. And I wouldn't have bet against our ability to take those products to market.

So, thank you very much for coming. It's been a real pleasure and I look forward to updating you on our progress. Thank you.

**Rob Binns:**
So, just for everybody's benefit there are refreshments available at the back. You'll have the chance to see some of the products that you saw earlier, the demo that George referred to. Many of the executives will be available for informal discussion in those sessions. I would just ask if you could give them all just a couple of minutes to get de-microphoned and all the logistics issues that we have to do. But, feel free to make your way to the showcase and look forward to connecting with everybody.

Thank you. Thanks for your day and safe travels.