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HPQ - Q2 2013 Hewlett-Packard Earnings Conference Call

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OVERVIEW:

Co. reported 2Q13 revenue of \$27.6b, non-GAAP operating profit of \$2.4b, GAAP diluted EPS of \$0.55, and non-GAAP diluted EPS of \$0.87. Expects full-year 2013 GAAP EPS of \$2.50-2.60, and FY13 non-GAAP EPS of \$3.50-3.60. Co. expects 3Q13 GAAP EPS of \$0.56-0.59, and non-GAAP EPS of \$0.84-0.87.



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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second quarter 2013 Hewlett-Packard earnings conference call. My name is John, and I will be operator for today's call. At this time, all participants are in listen only mode. We will be facilitating a question and answer session towards the end of the conference.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host for today's call, Mr. Rob Binns, Vice President of Investor Relations. Please proceed.

Rob Binns - Hewlett-Packard Co - VP IR

Good afternoon. Welcome to our second quarter 2013 earnings conference call with Meg Whitman, HP's Chief Executive Officer and Cathie Lesjak, HP's Chief Financial Officer. Before handing the call over to Meg, let me remind you that this call is being webcast. A replay of the webcast will be made available shortly after the call for approximately one year.

Some information provided during this call may include forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, results of HP may differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including, but not limited to, any projections of revenue, margins, expenses, earnings, earnings per share, tax provisions, cash flows, share repurchases, currency exchange rates or other financial items.



Any statements of the plans, strategies and objectives of Management for future operations and any statements concerning the expected development, performance, market share or competitive performance relating to products or services. A discussion of some of these risks, uncertainties and assumptions is set forth in more detail in HP's SEC reports, including its most recent Form 10-Q. HP assumes no obligation and does not intend to update any such forward-looking statements. The financial information discussed in connection with this call, including any tax related items, reflect estimates based on information available at this time and could differ materially from the amounts ultimately reported in HP's second quarter Form 10-Q.

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 including, amongst other things, amortization of purchased intangible assets, restructuring charges and acquisition related charges. The comparable GAAP financial information and a reconciliation of non-GAAP amounts to GAAP are included in the tables and in the slide presentation accompanied today's earnings release, both of which are available on the HP Investor Relations webpage at www.hp.com. I will now turn the call over to Meg.

Meg Whitman - *Hewlett-Packard Co - President and CEO*

Thank you, Rob, and thanks to all of you for joining us today. With the first half of our fix and rebuild year now behind us, I must say that I'm encouraged with where we are. Since sharing our turnaround plan with you in October, we've made significant progress. We've evolved our strategy for the business, we're bringing our costs in line with revenue while investing in key innovations, and we're optimizing our cash flow and lowering our operating Company net debt, and most of all, we once again exceed the financial performance we said we would deliver in a second quarter.

You can feel the turnaround taking hold at HP. I see it in my daily interactions with our employees and in our product portfolio and road map, and I hear it everyday from our customers and partners. But, as I've said so many times before, this is a multiyear journey, and we have a long way to go. We need to do a better job going to topline and defending our margins. That means continuing to implement critical programs that speed innovation to commercialization, optimize our supply chain, approve our go to market and demonstrate our product leadership across our markets.

In a second quarter, HP delivered \$0.87 in non-GAAP diluted earnings per share, exceeding by \$0.05 the top end of our financial outlook of \$0.80 to \$0.82 per share. Our results in the quarter were driven by better than expected performance in Enterprise Services and Printing, coupled with the accelerated savings from our restructuring program and improvements in our operations. For example, we are in the process of aggressively re-igniting our channel partner programs, and we are seeing some progress.

Since our Global Partner Conference in February, we've already developed more than 700 joint business plans which will ensure greater alignment and engagement. We've significantly improved the pricing processes, decreasing the turnaround time for quotes by more than 50% in Europe. We've also automated our deal registration process and deployed a new e-ordering portal and quote tool, enabling partners to accelerate deal closings to reduce cycle times for quotes by more than 20% in Asia.

You can already see the impact of our efforts to improve operations and execution on our cash flow. In the second quarter, cash flow from operations was \$3.6 billion, up 44% over the prior year. I am really pleased with our efforts to improve our cash management. This quarter we brought our cash conversion cycle down to 21 days, 7 days better than the prior year. As we've emphasized since October, we are maintaining a disciplined approach to capital allocation with a focus on rebuilding our balance sheet. After returning more than \$1 billion to shareholders of the form of share repurchases and dividends in a second quarter, we lowered our operating Company net debt position by \$1.8 billion to \$2.9 billion.

This represents our fifth consecutive quarter of reducing our net debt by more than \$1 billion and nearly and nearly a \$9 billion reduction since its peak in the first quarter of fiscal 2012. By the end of fiscal 2013, we expect our operating Company net debt to be below pre-Autonomy levels and approaching our goal of approximately zero. As we enter the second half of fiscal 2013, we see some macroeconomic headwinds. The economy in Europe continues to be a challenge, and China appears to be slowing down as well. We have taken these factors into account in our second half guidance.

Now, let me turn to our business group performance in the quarter. As you would expect in a turnaround, there are areas where we are doing well and then there are areas we simply have to do a better job. In Printing, I'm feeling really good about where we are on this business as we execute



against a the strategy we laid out in October. We sustained the strong performance we saw in the first quarter with margins in Q2 of 15.8%, up 2.6 points over the prior year. We are seeing business initiatives like Ink Advantage gain strength in the market and demand for new products like the Officejet Pro X outstripped supply in the quarter, despite ramping our production 32% faster than we'd planned.

Our focus on higher value segments is also paying off. As a result, we gained 2.6 points of share and high value ink and increased share in multifunction printers by 2 points over the prior year, and we are not taking our foot off the pedal in this business. As the category leader, we are going to keep driving technology and business model innovations that will extend our lead over the competition. In a second half, we expect to roll out our new Instant Ink program, a subscription-based pricing model to help drive usage in the home and small business markets.

In Enterprise Services, the leadership team under Mike Nefkens is doing a very good job stabilizing this business and improving customer experience as we continue to execute against our recovery plan. Margin in the quarter was 2.6%, within our margin range of 0% to 3%. Cathie will talk more about this segment, but we expect that revenue runoff will happen a bit slower than we initially expected, pressuring fiscal 2014 revenue growth, and we continue to close some major wins in Enterprise Services. For example, in a second quarter, we closed a 10 year, \$210 million agreement to support Cambridge University Hospitals Trust in transforming its digital infrastructure. Once the E-Hospital program is complete, clinical staff will have secure mobile access to test results, medical history and images. This will allow for faster, more informed decision making that can save lives.

In the Enterprise Group, I'm confident in our strategy. Converged infrastructure is the future, and by building solutions based on HP's intellectual property, we can differentiate ourselves in this market. We are well-positioned to capitalize on the major inflections currently underway in Servers, Storage and Networking. In the first half of fiscal 2013, we introduced critical technologies that are redefining the business in each of these areas. But it is not enough just introduce technology; we now have to help customers embrace it.

We are also seeing continued momentum in CloudSystems, and we announced our commitment to bring the power of openstack to the Enterprise to increase agility, speed innovation and lower-cost. To date, HP has about 1,000 unique customers for CloudSystems. Stay tuned for some new and exciting cloud announcements at HP Discover in June. During the quarter, we announced changes to the Enterprise Group to accelerate this progress and drive greater efficiencies. We are creating a new converged systems business unit and merging our two server businesses. These changes will simplify the organization, make it easier to do business with us and allow us to integrate R&D resources for faster time-to-market of new server technologies.

In Servers, we launched Moonshot, a new class of server aimed at the hyperscale market. Moonshot addresses the space, energy, cost and complexity issues that make today's computing platforms unsustainable over the long-term. Compared to our traditional HP ProLiant server offering equal performance, HP Moonshot uses up to 89% less energy, needs 80% less space and reduces complexity by over 97%, all costing 77% less. Simply put, Moonshot can revolutionize the economics of the data center. Moonshot will take time to ramp, and we continue to face near-term pressure in the hyperscale market, but we are confident that with Moonshot, we can redefine the market to HP's advantage. In the meantime, we'll focus on winning in traditional Servers without cannibalizing margins for the long-term.

In Storage, our planned portfolio shift continues. We've had strong success with our converged Storage and the midrange 3PAR products that were launched in the first quarter. This has been one of our most successful product introductions, and 3PAR has now exceed the \$1 billion run rate revenue mark.

In Networking, we sustained our growth for the fourteenth consecutive quarter. HP is a strong number two player in this market, and our Switching revenue now exceeds the sum of the next five competitors combined. In addition, we saw our Switching revenue grow in the quarter while our largest competitor declined over the prior year. Last month at Interop, Bethany Mayer and her Networking team introduced an industry-leading data center network fabric built on the HP Flex Network architecture. This new solution will allow customers to double scalability and reduce complexity by 75% over current technology, and it will cut provisioning time from months to minutes. We continue to see real traction in this market as customers realize the potential of our products.

In Technology Services, we are good progress on the cohesive and integrated strategy with Enterprise Group and are driving improved customer uptime and customer satisfaction. In Software, we saw continued challenges in the traditional IT management business which was particularly



weak in Europe. This was offset by momentum at Vertica and continuing stabilization at Autonomy. The industry shifts to SaaS continued to be a headwind in the short-term, but we are embracing this transition and our portfolio with new products such as HP Anywhere and Agile Manager 1.1. We saw growth in both SaaS bookings and revenue. Overall, we drove improved operating leverage as margins increased by 1.4% to 19.1%.

Our Software business is well positioned with key products covering mobility, cloud, big data and security. I am encouraged by some of the customer wins we are seeing at Autonomy. For example, this quarter we announced that Nippon Airways, Japan's largest airline, is using Autonomy's Optimost product to increase revenues and improve its online customer experience. Kudos to Robert Youngjohns and his team for all their efforts in recent months.

Now, let me turn to where performance needs to improve. While HP's new converged infrastructure products give me confidence in the long-term, we have to do a better job managing the transition from the technologies that powered the past to the ones that will power the future. That is particularly true in Personal Systems, Industry Standard Servers and traditional storage. These are highly competitive markets with aggressive competitors fighting for share, and we need to fight much harder. For me, this all comes down to our will to win, and we are committed to winning.

In Industry Standard Servers, we underperformed in both the hyperscale in mainstream server markets. Our underperformance was driven by both market conditions and our own execution. In hyperscale, where we expect Moonshot will give us a differentiated offering, the transition is going to take time. In the meantime, we have to closely manage the balance between margin and share. In a second quarter, we saw single-digit revenue decline as competitors aggressively priced in the market, but that cannot be an excuse. We simply have to execute better.

And we are on it. We are moving quickly to revamp business models to give our sales teams and channel partners more tools and more agility, especially on pricing. Give the deal cycle times in this business, we won't see the results of these activities until later in the year. In the mainstream business, while we need to improve our operational execution, we again encountered very aggressive competitive pricing and a weak macroeconomic environment. We stepped away from a number of deals to protect our bottom line, and it is clear that we need to take another look at the low end of our product line to better match customer needs and price points. Again, this all comes down to execution.

In Personal Systems, against a backdrop of dramatic overall PC market contraction, we saw revenue decline 20% over the prior year. These results were exacerbated by a difficult compare to Q2 of 2012 when we saw an increase in volume as the hard disk drive industry came back online following the Thailand floods. If you were to normalize the market share results for this by comparing the first half of 2013 to the first half of the prior-year, HP would've held share and gained share in commercial and desktop segments. As I said before, we are focused on improving our execution and driving profitable growth in our Personal Systems business. We saw margins of 3.2% in the quarter, which was up 0.5 points sequentially, but down 2.2 points over the prior year. It will take time to get our margins where we want them to be against the backdrop of a changing marketplace.

Let me say a bit more about our strategy in this business. Using multiple operating systems, multiple architectures and multiple form factors, we are moving quickly to produce the devices that customers want. And in this battle for customers, our supply chain and distribution network gives us a key advantage. You will also see us focus on services, peripherals and accessories to increase the revenue potential of our devices.

Following the launch of our first Chromebook in February, we launched the new Slate 7 in a second quarter. The Slate marries a sleek 7-inch form factor with an ARM chip and an android platform to deliver a compelling mobile device at \$169. Early signs of interest in this product are encouraging and just last week, we introduced the HP SlateBook X2, the first android hybrid device with the NVIDIA Tegra 4 mobile processor. The SlateBook X2 provides users with more realistic gaming, faster web browsing and smoother HD video playback. Overall, our turnaround made progress in a second quarter.

As you look out at the enormous shifts that are occurring across the technology landscape, I believe HP is positioned well to deliver solutions for the new style of IT and lead in critical markets. Converged infrastructure built on technologies like Converged Storage, Software Defined Networking and Moonshot will form the backbone of tomorrow's cloud, and this backbone will be integrated with big data and security capabilities that allow seamless connection across the virtual and physical worlds. To lead, we must continue to innovate, get our costs in line with revenue, fix the operational impediments that are holding us back and execute on the strategies we have laid out. And so far, we are making progress.

Now, let me turn to our fiscal third quarter and future outlook. HP's earnings and cash flow performance in the first half of the year was encouraging, but we don't want to get ahead of ourselves. While we have a plan forward, HP is rebuilding itself in the midst of profound changes across most of our businesses. This won't be easy, but I am confident in our plans and our determination to succeed. Our Q3 outlook for non-GAAP earnings per share is \$0.84 to \$0.87. Our outlook for fiscal 2013 is \$3.50 to \$3.60. I was encouraged by our performance in Q2, and I feel good about the rest of the year. So then, let me now turn it over to Cathie. Thank you. Cathie?

Cathie Lesjak - Hewlett-Packard Co - EVP & CFO

Thanks, Meg. Q2 was another solid quarter where we demonstrated that we are effectively executing against the plan we laid out and we are improving the business performance in some key areas. The resiliency of our business model as evident again this quarter in our earnings, and particularly, our cash flow performance. In the quarter, revenue was \$27.6 billion, down 10% year-over-year as reported and down 9% in constant currency. Some of our year-over-year revenue declines we foreshadowed in the last earnings call, but there were incremental market pressures during the quarter as IT spending softened and the macro environment clearly did not improve. We also need to execute better in certain areas.

In the Americas, revenue was \$12.4 billion, down 10% year-over-year as reported and 9% in constant currency. Revenue in EMEA was \$9.9 billion, down 9% as reported and 8% in constant currency. Revenue in Asia Pacific was \$5.3 billion, down 12% as reported and 11% in constant currency. Europe continued to be pressured, but we also saw weakness across Americas and APJ. In Q2 fiscal '12, we benefited in Personal Systems from the hard disk drive recovery, which means quarterly revenue and market share declines over prior-year are magnified.

Non-GAAP gross margin of 23.7% was up 50 basis points year-over-year, driven by margin improvements in Printing, unfavorable supplies mix and higher average prices for consumer hardware units. This impact was somewhat offset by margin declines across Personal Systems, Enterprise Services and the Enterprise Group. Sequential non-GAAP gross margin was up 140 basis points. We benefited from a favorable mix, given the steep decline and Personal Systems revenue plus margin improvements across all segments led by improvements in underperforming contracts within Enterprise Services. Non-GAAP operating expenses were \$4.2 billion, down 5.3% year-over-year and up 1.5% sequentially.

Our restructuring savings are ahead of in some segments, contributing to year-over-year declines in SG&A. R&D as a percentage of revenue is up year-over-year. Sequentially, R&D increased primarily due to lower amounts of the value added tax subsidy credits that we highlighted last quarter. Our marketing spend was also up sequentially, driven by investments in Printing to support their new product innovation. The Company delivered \$2.4 billion in operating profit with non-GAAP operating margin of 8.6% down 30 basis points year-over-year as improvements in Printing were offset by declines in Personal Systems, the Enterprise Group and to a lesser degree, Enterprise Services.

On a sequential quarter basis, non-GAAP operating margin was up 70 basis points. This improvement was driven by margin expansion in Personal Systems, Enterprise Services and the Enterprise Group. The bridge from non-GAAP operating profit to non-GAAP earnings per share includes the following, expense of \$193 million in other income and expense, a tax rate of 22%, our reduction in our weighted average share count to 1.947 billion shares as we used \$797 million in Q2 to repurchase 36.3 million shares.

As a result, we delivered non-GAAP diluted earnings per share of \$0.87, \$0.05 above the high end of our outlook and a GAAP diluted earnings per share of \$0.55, \$0.15 above the high end of our outlook. Second quarter fiscal 2013 non-GAAP diluted earnings per share excludes pretax charges of approximately \$408 million in restructuring charges, \$350 million from the amortization of purchased intangible assets and a small amount of acquisition related expense.

Moving to the business segments, Personal Systems delivered revenue of \$7.6 billion in the quarter, down 20% year-over-year with operating margin down 2.2 points to 3.2% of revenue. Operating profit of \$239 million was again just 10% of our overall quarterly non-GAAP operating profit. Total units shipped were down 21% versus prior year, driven by weak demand in notebooks and consumers.

By category, commercial revenue was down 14% and consumer revenue declined 29% year-over-year. We saw broad-based regional challenges and extremely aggressive pricing actions from competitors in the quarter. As Meg said, our focus remains on profitable growth. Given the hard disk drive issues of the prior year, looking at the first half provides a better assessment of the results. This shows that we basically held share overall and actually continued to gain share in APJ, particularly the growth markets such as China and also India where we are now number one across all

major categories. In Q2, we improved the sequential operating margins in Personal Systems by 50 basis points as we continued to aggressively take costs out of the system and repurpose dollars to invest in our strategy.

Turning to Printing, net revenue was \$6.1 billion, down 1% year-over-year. We see consistent progress in our Printing business as the new products and the strategy we highlighted at our Security Analyst meeting pays off. Our Ink in the Office products performed well with their recently launched OfficeJet Pro X capturing significant interest, and we saw positive supplies revenue growth of 2%. Operating profit was \$1 billion, or 15.8% of revenue, up 2.6 points year-over-year. Supplies were 68% of the revenue mix, up from the prior year, driven by toner. Our channel inventory continues to be within acceptable ranges.

By business unit, total printed unit shipment volume was down 11% year-over-year, largely driven by the decline in lower end consumer as we continue our focus on the higher value units. Consumer printer revenue was down 5%, with hardware units down 13% year-over-year as our focus on the high end of the market and programs like Ink Advantage contributed to improvements in our average revenue per hardware unit. Commercial printer revenue and hardware units were both down 5% versus the prior-year period.

The currency dynamics are having a mixed impact. The depreciating yen was the marginal benefit in Q2 but should provide a more significant benefit in the fiscal second half. Offsetting this are signs of increased price aggressiveness from Japanese vendors. In Q2, the net effect of all global currencies on revenue and cost headwind for Printing.

Turning to the Enterprise Group, revenue of \$6.8 billion was down 10% year-over-year with declines across Servers, Storage and Technology Services. Operating profit was \$1.1 billion and the operating margin of 15.9% was 2 points below the prior-year period with operating margin declines in IFS, Storage and Networking, partly offset by a rate and mix benefits from Technology Services.

At the business unit level, industry standard server performance was not where we expected it to be. Revenue declined 12% year-over-year with double-digit declines across all major geographies on poor execution, coupled with continued macro pressure and an intensely competitive pricing environment. In our mainstream business, we struggled with our entry products and saw pressures and the volume and some areas of the value sides of the business. In hyperscale, we faced a difficult compare over prior year but also saw further weakness in sales to service providers. Meg mentioned our excitement around Moonshot, and we are already working with customers and partners to secure design wins.

Within Storage, overall revenue declined 13% year-over-year to \$857 million. Converged Storage products were up 48% year-over-year and within that, 3PAR was up 82%, but the planned transition away from our traditional portfolio, which this quarter included steep declines in Storage Networking, tape and media drove an overall decline in Storage revenue. Without doubt, 3PAR is a hot product, and our mid range offering announced earlier this year continues to take share and win customers. We need to better manage the declines in traditional storage, but are excited about the ramp and the positive partner and customer feedback we are getting around our converged Storage products.

Business critical systems revenue declined 37% year-over-year, driven by continuing secular pressures and the weakness in Itanium Servers. Networking revenue was up 1% year-over-year at \$618 million, or up 2% when normalized for a divestiture in 2012, our fourteenth consecutive quarter of growth. We expect modest share gains on a year-over-year basis as our Software Defined Networking solution continues to disrupt the Networking landscape. Technology Services revenue was down 3% year-over-year to \$2.3 billion. We are driving improved profitability in this segment by building in self-healing technology into our hardware, embedding more proactive maintenance and designing reactive support that delivers best in class service in a cost-effective model.

Finally, we are also providing new consulting services that help customers realize the full value of converged infrastructure. Enterprise Services delivered revenue of \$6 billion, down 8% year-over-year. Operating profit was \$156 million, or 2.6% of revenue, down 1.1 point from the prior year. Through the first half, we are ahead of the outlook we communicated for fiscal 2013. As we mentioned in our last earnings call, some of that is due to delayed account runoff, and we've also seen good progress in addressing our underperforming contracts.

In addition, we improved our cost discipline and accelerated some of the savings that were originally expected in the second half of the year. IT outsourcing revenue of \$3.7 billion was down 6% year-over-year, driven by contractual revenue runoff and pricing pressures. Q2 saw our largest mega deal signing since Q1 of fiscal '12, but signings were still heavily weighted to renewals.



Application and business services revenue was down 10% versus the prior year at \$2.3 billion as the contractual runoff negatively impacted this business as well. We continue to develop our IP in this space, but need to ramp our sales team more aggressively to capture the market opportunity. We saw triple digit year-over-year growth in our strategic Enterprise Services revenue such as cloud, security, application modernization and big data.

Turning to Software, revenue of \$941 million was down 3% from the prior-year period. License revenue declined 23% year-over-year, support was up 12%, professional services was down 16% and SaaS revenue was up 18%. Overall, second quarter operating profit for Software was \$180 million, or 19.1% of revenue. The license decline was reflective of some of our execution misses plus market challenges and the industry shift to SaaS. Our professional services revenue will continue to be impacted as we prune this portfolio and focus on profitability. Q2 saw growth in security and big data, and we remain bullish about the strength of our assets and the market opportunity we see here. We continue to apply focus to build a healthy and more profitable Software business, but we expect progress will take time.

HP Financial Services revenue was down 9% year-over-year at \$881 million, financing volume was down 24% and net portfolio assets decreased 3% year-over-year to \$12.3 billion. Operating profit of \$97 million was up 1.1 points to 11% of revenue. Financing volume was down year-over-year across all regions, more acutely in our services led business. We were also impacted by lower buyout activity this quarter that impacted the asset management side of the business. We continue to be pleased with the return on equity this segment deliveries.

Now, on to capital allocation and the balance sheet. We had another great cash flow quarter. Operating cash flow was \$3.6 billion, up 44% year-over-year, and free cash flow was \$2.9 billion, up over 90%. We delivered \$5 billion of free cash flow in the first half of fiscal 2013, already achieving the full-year outlook previously provided. We are very pleased with this performance, although note that we do not expect this pace to continue throughout the rest of the year.

Working capital was a key driver of strong cash flow performance again this quarter. The cash conversion cycle was 21 days, down 7 days year-over-year with improvements across days receivable, days payable and days of inventory. Our cash conversion cycle decreased 2 days sequentially as normal seasonal movements in days payable and days receivable were supported by inventory reductions.

During the quarter, we returned \$797 million in cash to shareholders via share repurchases, leaving roughly \$8.1 billion remaining in the authorized share repurchase program. We also paid \$283 million to shareholders through our quarterly dividend. Today, the HP Board of Directors declared our Q3 dividend; as previously announced, this reflects a 10% increase over our previous quarterly dividend amount, our third consecutive year of increasing the dividend.

Total gross cash at the end of the quarter was \$13.6 billion. Our net debt at the operating Company level improved \$1.8 billion sequentially, now standing at \$2.9 billion. We are making tremendous progress rebuilding the balance sheet while continuing to distribute capital back to our shareholders. In Q2, we repaid a \$1.5 billion debt maturity with cash on hand, and this Friday we will repay a debt maturity of an additional \$1.75 billion. These are important steps in rebuilding our balance sheet.

Now, turning to our outlook. We remain confident in our ability to manage our cost structure and drive continued operational improvement. In fact, we accelerated some savings across the Company into Q2, and this helped normalize our full-year quarterly seasonality. We are still on track to achieve the savings targets we've previously laid out, but the persistent macro and market pressures in some of our businesses are utilizing these savings to offset weaker performance.

As mentioned, last quarter the challenges within Personal Systems, particularly in EMEA and the notebooks, are worse than we expected. We are tackling our execution challenges and focusing on profitable growth, but we expect the challenging competitive and market landscape to continue in the near-term. In Servers, we expect secular headwinds in business critical systems to continue, and although our Moonshot launch was very successful, we are not pleased with the x86 server performance. 3PAR is doing well and we will continue to manage the transition of our traditional storage products, and we are also focused on accelerating our Networking growth.

Printing continues to perform well, revenue performance has stabilized as our supplies channel inventory has come into line, and we are seeing the benefits of the strategies we laid out at our Security Analyst meeting last October. Enterprise Services remains a long-term turnaround, but is



benefiting from improved execution in underperforming contracts, overall cost management and delayed key account runoffs. We still expect the runoff to occur in a second half, leading to the expected decline in second half revenue being in the low end of the 11% to 13% range previously provided. We now expect full-year operating margins for the segment to be at the higher end of our 0% to 3% range provided at our Security Analyst meeting in October.

Finally, we expect that currency will be headwind to revenue of approximately 1 point year-over-year in Q3. With that context, we expect full-year fiscal 2013 non-GAAP earnings per share to be in the range of \$3.50 to \$3.60. For fiscal 2013 Q3, we expect non-GAAP earnings per share in the range of \$0.84 to \$0.87. From a GAAP perspective, we expect a full year GAAP earnings per share to be in the range of \$2.50 to \$2.60 and GAAP earnings per share for fiscal Q3 is expected to be in the range of \$0.56 to \$0.59.

Finally, although we don't typically update our cash flow outlook mid year, we think it makes sense to help you understand how is we the second half shaping up. Compared to our original outlook, we benefit from the three main items -- lower restructuring payouts, lower CapEx and a reduced deposit in connection with the customs duty appeal in India. Second half restructuring payouts and CapEx are expected to be higher than we saw in the first half, but we expect them to be below the full year ranges in our previous outlook. As a result, we now expect fiscal 2013 free cash flow to be approximately \$7.5 billion. With that, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Katy Huberty from Morgan Stanley. Please go ahead.

Katyl Huberty - Morgan Stanley - Analyst

Thanks. Meg, you mentioned that the services runoff will be pushed more to fiscal '14, which will obviously hurt topline growth. But just curious, if we exclude that impact, do you still think that HP can get to neutral or positive revenue growth next year, excluding that services?

Meg Whitman - Hewlett-Packard Co - President and CEO

So Katy, we do continue to believe that revenue growth is possible. I think you have to remember that we are rebuilding ourselves in the midst of some of the most profound changes that I've seen in the technology industry, almost in our generation, and the progress on this turnaround isn't going to be linear. And I would also say that the macroeconomic environment I don't think is going to be a tailwind for us. So, this lower ES revenue runoff will create pressure in 2014, but if 3PAR performs as we expect it will, if HP networking does, if security, big data and our industry standard server business performs as we expected it to, I think we have a good shot at growth in 2014. But there's no question there's headwinds.

Katyl Huberty - Morgan Stanley - Analyst

Okay, then just as a quick follow-up, with line of sight to a neutral net debt position, do you feel comfortable stepping up the share buybacks, even versus the second quarter run rate?

Meg Whitman - Hewlett-Packard Co - President and CEO

I think the good news is will be in the happy position now of being able to do capital allocation across a number of different options and really, the past 18 months has been solely focused on rebuilding the balance sheet while increasing our dividend and in fact, purchasing shares to offset

dilution. We're going to look at this on a returns based way. There's the opportunity to invest, the opportunity to returning cash to shareholders, the opportunity to potentially do small tuck-in acquisitions that further our cloud initiatives or our converged infrastructure initiatives or our software initiatives. So, you can be sure that we are going to be disciplined about this, and it's going to be returns based.

Rob Binns - *Hewlett-Packard Co - VP IR*

Super, thanks, Katy. Next question, please?

Operator

Our next question comes from Ben Reitzes from Barclays, please go ahead.

Ben Reitzes - *Barclays Capital - Analyst*

Thanks a lot. Just a little bit more on the free cash flow. Considering the difference in the guidance, you had about a \$5 run rate in free cash flow with the \$5 billion you did, and your outlook, though, for the second half is much closer to a \$3 run rate with the \$2.5 billion to \$3 billion or \$2.5 billion, so it is actually a little lower. But what is the real HP run rate in cash flow? Is it more like the second half, more like the first half or somewhere in the middle? And how should we look at that from a long-term basis when things settle down?

Meg Whitman - *Hewlett-Packard Co - President and CEO*

So Ben, I think the way to think about it is, is that it's not really the first half or the second half, it is the full year, and we expect it for the full year will get to approximately \$7.5 billion. We are very focused on cash flow in this Company. We have really changed the whole sensitivity and awareness of cash flow through a lot of education programs and what have you, and you're seeing it pay off. You're seeing it pay off in free cash flow because of the right management about CapEx, you see it in cash flow from ops because of the cash conversion cycle. We improved the cash conversion cycle basically seven days year-over-year. So, we are going to stay focused on that, and I think that you should then look at the full-year free cash flow as a launching point for fiscal '14 and beyond.

Ben Reitzes - *Barclays Capital - Analyst*

So, the goal is to grow it from 2013, that there's not like a one-time aspect of the first half?

Meg Whitman - *Hewlett-Packard Co - President and CEO*

No, I don't think there's a one-time aspect here. The seasonality in the year is a little bit different. First half had some lower CapEx, lower restructuring payouts than what we had originally expected as well as some lower cash tax payments that are going to show up in the second half. So, the seasonality in the year is a little bit different. But over the long-term, our of focus is absolutely to grow cash flow.

Ben Reitzes - *Barclays Capital - Analyst*

Takes a lot.

Rob Binns - *Hewlett-Packard Co - VP IR*

Thanks, Ben. Next question, please?



Operator

Our next question comes from Mark Moskowitz from JPMorgan. Please go ahead.

Mark Moskowitz - JPMorgan Chase & Co. - Analyst

Yes, thanks, good afternoon. Meg, I just wanted to touch a little more on the services piece. What does your confidence in these planned services leakage events actually happening 2014? And if it doesn't, is it really because of HP becoming more focused from a productivity and execution perspective they you are able to maybe unwind some of these planned attrition events?

Meg Whitman - Hewlett-Packard Co - President and CEO

Yes, I think, Mark, it's both. I think there's there is runoff that is slower from some of these big identified customers. We've been a good job of selling into those customers, so we've managed it effectively. I will say we are also executing a lot better in this business. We are managing our costs much better, there's a predictability to this business that there was not in 2012. And we have built out a management team that I think is very well suited to really taking this business to a whole new level.

We have a sales -- new sales leader in place. A real lean Six Sigma manager in place, [JJ Sharhona] is doing a terrific job as COO, Christine Reischl as CFO, and then of course Mike Nefkens. And the control of this business just feels very different to me than it did a year ago. I think it is -- partly the runoff is happening slower by the customers, but we are also managing it much better than I think we would have a year ago.

Mark Moskowitz - JPMorgan Chase & Co. - Analyst

Then a follow-up, just in terms of the learning points, clearly, you are having some good success around productivity and execution. Are there any learning points that can be shared with other businesses, or have they already been shared to maybe improve execution elsewhere?

Meg Whitman - Hewlett-Packard Co - President and CEO

We are working to improve execution across the Company, and I think we are overall getting better at execution. There are pockets that I hope we will do better in. We certainly learn every quarter from our mistakes and we get better.

But if you think about fundamentally, we are fixing a lot of the impediments to HP being great. And whether that's our IT systems, we are making big investments there, and that's paying off. We are making investments and our go to market in terms of streamlining and getting the right people in the right job, so we are fixing a lot of the HP impediments that I described at the security analyst meeting. I will say, this takes time. This is an enormous organization, global in nature with 180,000 partners that need to be brought along. And you will recall that in many of our businesses, 60% to 70% of our business goes through partners. So, as we make changes to the partner program, which were well overdue and I think right on target, it takes a while for that behavior to change. Our big changes in our partner programs went in May 1, so that's going to unfold over the next two quarters and probably actually into 2014. As we change our go to market, that will have some impact this year, but again, in 2014.

Listen, we are learning organization, there's lots of best demonstrated practice sharing going on, and then there are still things we find out every quarter in terms of what we could do better. So, a little bit of a long-winded answer, but I think we are on the right track here.

Rob Binns - Hewlett-Packard Co - VP IR

Great, thanks, Mark. Next question, please.



Operator

Our next question comes from Toni Sacconaghi from Sanford Bernstein. Please go ahead.

Toni Sacconaghi - *Sanford C. Bernstein & Company, Inc. - Analyst*

Yes, thank you. I was hoping you could clarify really what your strategy for balancing profitability versus share in key competitive segments like ISS and PCs. Meg, I think I heard you say we are committed to win; Cathie, you said we are going to pursue profitable growth. I'm not quite sure what either of those really means, but what is the near to medium term focus in terms of either share or a threshold level of profitability for each of those businesses? And part of the reason that I ask that is that they are both drivers, particularly ISS, of support -- very high margin support revenues, which have now been negative for the last four quarters. Your deferred revenue balance fell much more dramatically than any other quarter, at least that I have in 10 years of history. So, it is not just the near-term, there's a downstream consequence as well, and maybe you can tell me if and how you think about that as you think about the broader growth and share and margin trade-offs in the near-term?

Meg Whitman - *Hewlett-Packard Co - President and CEO*

Yes, good question, Toni. It is a balance, right? You want to gain share everywhere you can or minimize the share loss, but you have to balance this with profitability, and it is a balance we focus on every day and every week. This quarter you saw one of our big competitors, Dell, completely crater their earnings. And that is not sustainable for Company like Hewlett-Packard. Maybe it is what you do when you're going private, but it is not what you do if you're running a big publicly-held Company that is trying to create the financial capacity to invest in innovation, to invest in our future. And as I've said, we are here to set this Company up for the long-term, not just get through this year. So, it's a balance. And I would say in ISS this quarter, we did walk away from deals that were really problematic from a operating margin perspective.

Now, what the team understands is that cannot be an excuse, that means we've got to figure out how to compete. Either our gear has to be much better, we have, to make sure we've got the right product design for the right market segment appropriately featured, no over featured. And we have to make decisions about what deals we must win and we're going to be focused on the deals that are sticky as opposed to the deals that are strictly transactional in nature that you do one and there's no long-term relationship. And the next time they go, to market they don't care whether it is us or someone else. That's the balance that we are putting in place. In terms of TS revenue, we are actually really happy with the management of technology services under Antonio Neri, he's doing a good job. But he's got a couple of headwinds because as we see BCS decline, of course the attach rate of TS was very high to BCS. So, that's a headwind that he's fighting.

At the same time, he is working to increase the attach to servers, to storage, to networking. And he's also developing products like Data Center Care that can be sold to customers that haven't necessarily bought an HP product in that quarter. So, it is all a balance, and every quarter, every month, we adjust that balance. But I also think we've got to make sure that we have the low-end of the market priced right and featured right. Cathie, you want to add to that?

Cathie Lesjak - *Hewlett-Packard Co - EVP & CFO*

Yes, let me add a couple of points. The first one, Toni, I think part of your point is a really important point, and that's that we may well be more aggressive on pricing on an industry-standard server if we are getting attached to TS. And so really how aggressive and where we might go for more share and take a lower margin will be based on the complete picture and the long-term view of the opportunity in that account. And so it is really is, it is very much like the IPG business where we know every time we place a inkjet unit, we are placing it in at a loss, but we know that over the life of that unit, it is going to generate a positive NPV. So, we definitely take that into consideration.

And then the second thing, just tactically on the deferred revenue, potentially, what you are not -- you don't realize is that there was a request and our deferred revenue on the balance sheet from short-term to long-term. So, the decline that you see or you're backing into is larger than what is really there. The reclass is roughly \$750 million out of short-term into long-term.



Toni Sacconaghi - *Sanford C. Bernstein & Company, Inc. - Analyst*

Great, thanks.

Rob Binns - *Hewlett-Packard Co - VP IR*

Thanks for that, Toni. Next question, please.

Operator

Our next question comes from Shannon Cross from Cross Research. Please go ahead.

Shannon Cross - *Cross Research - Analyst*

Thank you very much. Can you provide more color on currency, remind us of how your hedging strategies work? And then I'm also curious about your comments regarding the pricing environment and what you are seeing from the Japanese and if you are going to actually be more price aggressive, say with your laser printers, given you also benefit on the COGS side?

Cathie Lesjak - *Hewlett-Packard Co - EVP & CFO*

Why don't I start? If you look at year-over-year Q3, currency is probably about 1 point of headwind to revenue. For the full year fiscal '13 over fiscal '12, also about 1 point of headwind. Now, that's improved versus our security analyst meeting when it was 2 points of headwind. But you alluded to it, we really need to think about the fact that HP is exposed to a whole basket of currencies and we have different hedging strategies, depending on the competitive business that we are in. For example, in the services space, we hedge longer-term than we do on a poorly transactional business -- piece of business in the personal systems group. It also depends on how quickly we can pass on changes in currency and pricing. And so that basket of currency and then the different hedging strategies really mutes the currency impact quarter to quarter in our business.

From a supplies perspective, the depreciation in the yen didn't give us much of a benefit in Q2. It is more skewed to the second half and mostly in Q4 when we see the big ramp, and that's really because of the contract that we have with Canon and the hedges that we had in place at the point of time that the yen started to depreciate. We do expect that our cost savings in the second half are creating quite a war chest for Japanese competitors, and we are starting to see a more aggressive pricing. They now have a lower cost structure than they did before. We're going to use some of that yen benefit to fight back, and I think that's the right thing to do, Shannon. The currencies, there's pluses and minuses. In the laser business, it helps us in terms of our profitability but hurts us because the competitors are now cost competitive because with of what's happened to the yen

Meg Whitman - *Hewlett-Packard Co - President and CEO*

And Shannon, we will also use the opportunity to place a more valuable unit in the market for printers.

Shannon Cross - *Cross Research - Analyst*

Okay, great, and would you assume that you'll be more -- spending more on marketing and such to drive the new Inkjet in the Office initiative as well?



Meg Whitman - *Hewlett-Packard Co - President and CEO*

Not above what's planned in the forecast. We actually knew obviously OfficePro, Officejet Pro X was coming online. We knew was a big bet. We also wanted to take some of our contra revenue and put it back into marketing, so we are planning on that, so that's built into our forecast.

Shannon Cross - *Cross Research - Analyst*

Thanks.

Rob Binns - *Hewlett-Packard Co - VP IR*

Great, thanks, Shannon. Next question, please?

Operator

Our next question comes from Keith Bachman from Bank of Montréal. Please go ahead.

Keith Bachman - *BMO Capital Markets - Analyst*

Hi, Cathie, for you, please. Could you --I want to go back to cash flow. In '09 and 2010, the cash cycle actually was as low as 15 and was ranging between 15 and 18 days. Can you get down to those type of days, or are there structural issues as you think about your cash flow that would prohibit you from reaching mid to high teens days. And/or, when you were talking about ongoing cash flow generation capability in '14, is it more driven by improved profitability? If you could talk a little bit about how you're thinking about the cash cycle versus profitability as drivers to your overall cash flow, thank you

Meg Whitman - *Hewlett-Packard Co - President and CEO*

Sure, Keith, what makes it difficult to get back to teens in the cash conversion cycle is the personal systems business. Personal systems, if you look at them as a stand-alone business, they actually have a negative cash conversion cycle. When that business is growing well and when it is a bigger percentage of HP, the opportunity just on a mixed basis is to get to a cash conversion cycle that is much lower. So, unless and until that changes, I don't think don't think we get to the teens.

I think we -- I think 21 days is actually a very strong performance for us. In terms of growing cash over time, it is about growing earnings. It is about continuing to manage our CapEx in a very returns-based manner, and it's continuing this focus within the organization around cash and how every single individual in the Company has an opportunity to impact in a positive way or a negative way our cash.

Cathie Lesjak - *Hewlett-Packard Co - EVP & CFO*

This goes down to also key to product planning, how many platforms are we going to build to, how many SKUs on top of those platforms? Because the more SKUs, the more platforms, maybe the more customer needs you can meet. But getting the right amount of inventory in the right place at the right time, the more complex it is, the harder it is. So, that's why we have a real eye on platform minimization as best we can to still meet customer needs.

Rob Binns - *Hewlett-Packard Co - VP IR*

Great. Thanks, Keith.

Operator

Our next question is from Brian Alexander from Raymond James. Please go ahead.

Brian Alexander - *Raymond James & Associates - Analyst*

Okay, Meg, you talk about renewed channel momentum, and you mentioned improvements in areas like to deal registration and turnaround time. You gave some examples and you said it would take until 2014 to really see progress on the top line. But you also talked about aggressive pricing in pretty much all of those segments where you might see benefit and obviously, you're going to be focused on profitability. The question is, what segments of the business are you most confident that you'll actually see revenue stabilization in market share momentum improve as we head into next year? Where should we be looking the signs of success that you are doing with the channel? Thanks.

Meg Whitman - *Hewlett-Packard Co - President and CEO*

I think 3PAR and StoreOnce is going to have a great year with the Channel, the second half and next year. I would also say HP networking. With the new Data Center networking product that Bethany introduced at Interop last week or the week before, that's a perfect channel product. Where actually George Kadifa is working hard to improve our software sales through the channel, and there's a great deal of interest on the part of the channel. We just had channel advisory board, and many questions were how can we get involved with security? How can we get involved with Vertica and Autonomy? Listen, we hope that it will help -- the changes to the programs will help our mainstream industry standard servers.

The great thing about the channel is they are very commercial. They want to go where they are going to make the most amount of money and where the sale is going to be the easiest to their end customers. We've tried to be whole lot easier to do business with very competitive channel programs. For example, starting at paying at dollar 1 as opposed to a complicated set of gates and hurdles that they have to jump over. And then PCs, listen, if we have the right product priced right, the channel still loves HP, and they want to sell in our product, whether it is to small businesses, medium size businesses or the enterprise. And frankly, having android products here helps a lot. This \$169 Slate helped cover a segment of the market that we didn't have before. So, I'd say those are the things, the first ones were the ones I feel most certain about, and we will have to see how industry-standard servers pans out and how our PC product is received by the channel.

Brian Alexander - *Raymond James & Associates - Analyst*

Okay, thank you.

Rob Binns - *Hewlett-Packard Co - VP IR*

Thanks, Brian. Next question, placed.

Operator

Our next question comes from Steve Milunovich from UBS. Please go ahead.

Steve Milunovich - *UBS - Analyst*

Thank you, I wonder if you can give some color first on industry verticals? How much exposure perhaps generally you have to different vertical strength and weakness you are seeing, particularly in the federal government? And then just an accounting question on the balance sheet. Accumulated other comprehensive income has jumped quite a bit the last couple quarters, what's that about?



Meg Whitman - *Hewlett-Packard Co - President and CEO*

Okay, let me take the vertical area. As you know, we have particularly in enterprise services, a significant presence, a good presence with the federal government in the United States as well as the government in the UK and other countries. EDS had a very strong federal government practice, and we are excited about that business. There's no question that the tenor and tone has changed with sequestration in the United States and frankly, austerity in Britain.

So, we have to be very sharp and very competitive to win that business and we have to come to them with ideas about how they can fundamentally change their cost structure. Because the days are over in the federal government of ever-escalating IT budgets and frankly, I think it is over in some of the big industries like financial services and others. It is about providing solutions that can fundamentally change their cost structure and get them to, if you will, the new style of IT. We are on this. I feel pretty confident about it. But we are seeing a lot of pressure on the government side of things, as you might imagine. Cathie, do you want to answer?

Cathie Lesjak - *Hewlett-Packard Co - EVP & CFO*

Yes, on that, Steve, there's lots of puts and takes in accumulated other comprehensive income, and so what I think is probably best is for -- Rob will follow-up with you after the call.

Steve Milunovich - *UBS - Analyst*

Okay, thanks.

Rob Binns - *Hewlett-Packard Co - VP IR*

Thanks, Steve. Next question, please.

Operator

Our next question comes from Aaron Rakers from Stifel Nicolaus. Please go ahead.

Aaron Rakers - *Stifel Nicolaus - Analyst*

Yes, thanks for taking the questions. On the operating expense savings, can you just give an update where you stand as it relates to your headcount reduction effort of 26,000 people for the year? And then I think obviously, you talk about accelerated savings and the OpEx line, but can you also talk about the rate of reinvestment relative to what you'd said the analyst day event, which I think you'd outlined a \$0.15 headwind from reinvestment. Where do we stand relative to that at this point halfway through the fiscal year?

Cathie Lesjak - *Hewlett-Packard Co - EVP & CFO*

Okay, so it may start with where we are with respect to our labor restructuring. We are on track for 26,000 employees to exit the Company under our restructuring plan by the end of this year. We had roughly 3,500 employees leave under the plan in the quarter and on a program to date basis, we are at about 18,800. So, we are actually probably a little bit ahead of plan but feel good about achieving the savings for the year.



Meg Whitman - *Hewlett-Packard Co - President and CEO*

In terms of -- Aaron, in terms of where we are versus the \$0.15, listen, we have -- as we have created that financial capacity to invest, we are protecting that investment with everything we've got because that is the future of Hewlett-Packard. You can see that investment in products like Moonshot, multifunction printers, OfficeJet Pro X, SDN, low tier, mid tier storage, strategic enterprise services in services business. And we are also driving investment into IT, whether it is quote to cash or other CRM tools, sales force, workday, we are trying to fix a lot of what has been historic impediments to getting the work done here, and we are protecting that investment aggressively. Now, what we believe will happen is, that many of those investments in IT, you are going to start to see the benefit, for example, in services. The good news is they now have a labor demand/supply management system. They have a purchasing system that is going to allow them to get more productivity. I'd say we're -- I will let Cathie comment, I think we are certainly protecting the \$0.15, and as we see opportunities, we are making incremental investments to set us up for the longer-term.

Cathie Lesjak - *Hewlett-Packard Co - EVP & CFO*

I would agree with that. One of the things, when I looking at the results of thinking about questions that you might ask, it was an interesting thing when I was looking at OpEx. Because OpEx is down just over 5% year-over-year and up about 1.5% sequentially. And I thought, someone might ask the question, wow, your revenue was down 10%, why isn't OpEx down at least 10%? Can't you cut costs faster? And yet, I thought a whole other group of people might say, why are you cutting expenses, why aren't you making the investments for the long-term? So, what I think is really important is, A, we've got our arms around cost. And we've got our arms around where we think it is appropriate to invest for the long-term, so we are not making our EPS based on cost-cutting alone. This is really well thought out, well placed OpEx dollars, and of course we're cutting out the stuff that's not generating the returns that are going to help set us up for the future. But we're protecting the investment whether it is in R&D, whether it is in marketing or sales to set ourselves up for the future.

Rob Binns - *Hewlett-Packard Co - VP IR*

Great, thanks, Aaron. Time for one final question.

Operator

Our last question comes from Bill Shope from Goldman Sachs. Please go ahead.

Bill Shope - *Goldman Sachs - Analyst*

Okay, great. Thanks. I have an extension of the last question. Prior to giving us the \$0.15 reinvestment target at the analyst day, I believe when the restructuring program was first announced, you mentioned that vast majority of the savings would be invested. And I understand that the end market dynamics have changed, so that shouldn't necessarily be the near-term goal. But can help us to think about how much of the original reinvestment plans from a year ago are being delayed versus eliminated because they may simply not be necessary anymore? And maybe an example or two of where the latter may have occurred?

Cathie Lesjak - *Hewlett-Packard Co - EVP & CFO*

That me start with -- let's level set. What we said at the security analyst meeting is that a labor savings would be roughly \$2.2 billion in fiscal '13, and that's about \$1.9 billion over fiscal '12. We are still committed to that plan. We are not -- none of those become unnecessary. Now, they don't all drop to the bottom line either because we are reinvesting or we are using it to protect the weakening performance that we've seen.

Then in November we talked about the fact that we have incremental non-labor savings, incremental to the labor savings of roughly half of what the labor savings were. And we talked about the fact that those were more weighted to the second half as it ramped. Now, we did bring some of



those into Q2 and are pleased with that performance. But that, again, is all there to set up, protect the commitments that we are making and in the business environment that we see and reinvest.

Meg Whitman - *Hewlett-Packard Co - President and CEO*

I think Cathie summarized it really well. This is -- we have an eye on the short-term, but we have an eye on the long-term. Because anyone can make this quarter or this year, and it is all about setting ourselves up for the products and services and software that are going to our the new style of IT while we manage through knot hole of some declining businesses that frankly were the way the industry used to be powered/ And it is that transition that we've got to manage through, and it is not easy, but I think actually we've got a handle on this and I think were doing a reasonably good job of it. But it's absolutely critical to protect the investments, and then we can use some of the savings to cover weaker business performance, which we have.

Bill Shope - *Goldman Sachs - Analyst*

Thank you.

Meg Whitman - *Hewlett-Packard Co - President and CEO*

Thank you. Thank you a much for joining us.

Rob Binns - *Hewlett-Packard Co - VP IR*

Thank you, and that concludes the call. Thank you very much.

Operator

Ladies and gentlemen, this concludes our call for today. Thank you.

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