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PRESENTATION

Scott Craig - *BofA Merrill Lynch - Analyst*

Good morning. Thanks for coming here. For those of you who don't know me, my name is Scott Craig. I cover the IT hardware and storage industry here at Bank of America Merrill Lynch and we're excited to have Hewlett Packard here as our next fireside chat. To my right here is Cathie Lesjak, who I know most of you know, the Executive Vice President and CFO of Hewlett Packard. And we're going to kick it off into Q&A, but first I want to draw your attention to the forward-looking statement disclosure there. So I know you guys will all read that thoroughly, but without further ado I'm going to actually just kick it off and get into the Q&A.

Cathie, I mean clearly there's been a nice transformation going on at the organization. Now, when you looked at it, at last year's analyst event you talked about sort of a multiyear plan and fiscal 2013 being kind of the year of fix and rebuild, and followed by expansion in fiscal 2014. So can you kind of take us through how you assess your performance so far against that plan and what we can kind of expect to see here as we move forward?

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

Sure. We're pretty pleased with the progress that we're making. I would say that the progress is encouraging in the turnaround, but it's important to stay grounded on the fact that we're about 18 months in what we think is probably a five-year turnaround. So we have a lot of work still to do. But what we've laid out at the security analyst meeting was basically four major priorities in fiscal '13. The first one was around innovation and evolving our business strategies, really focusing on operational improvement, especially where it's really kind of holding us back from meeting customer needs, and then finally on rebuilding the balance sheet.

So let me give a few data points on kind of the progress we're making along those dimensions. So the first one is on rebuilding the balance sheet and I would say that we are outperforming even our expectations about what we would be able to do and that's really around driving much better free cash flow. In the first half of the year we basically met what we thought would be kind of our outlook or weather outlook for the full year. Cash conversion cycle is good. We're really driving in the Company at just about every level this focus on cash flow and that's really important. HP has traditionally been a return on sales Company and we know the P&L really well, but people have not really focused on the balance sheet. So that's really what's going on now non-deductible that's helping us get our net debt position in much better shape.

And then on the operational side, we've made improvements through IT investments and tools around sales force productivity, around resource management within enterprise services, which is really important to that business. We've also made changes to some of our channel programs, which is also important. We lost kind of the mind share of the channel probably about 18 months ago and we've really got to win it back, and we're focused on doing that as well as improving underperforming accounts in the enterprise services.

So those on the operational side, I feel like we are making progress. There's still again a lot more to be done. And then finally, from an innovation perspective this year has been so far a big year for new launches. You talk about Moonshot, Officejet Pro X, the Slate 7, Ink Advantage, Software Defined Networking. You can kind of go across the entire spectrum, 3PAR are all having great launches, and in many cases these products are outstripping our expectations. So we're making good progress. Still got a lot of work to be done here, but I believe that we're on the right path.

Scott Craig - *BofA Merrill Lynch - Analyst*

Okay, and maybe just sticking on the cash flow for a second, clearly it's been better than your expectations and everyone's expectations I think. Is there a way to think about the cash flow on a normalized basis longer term? And one of the stories that's obviously been resonating with investors

recently is the whole capital reallocation type of story. And it seems like maybe that will be an HP story here at some point as well. How do we think about the timing of that type of change that could possibly happen?

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

So just to level set everyone, we did update our outlook for free cash flow, which is pretty unusual for us, on our earnings call because we had basically met our goal for the year in the first half. And we upped it to approximately \$7.5 billion in free cash flow for the year, and we feel good about the progress that we're making there. It's about cash flow from ops and it's also about really tight management of CapEx. And that has enabled us to reduce our net operating company debt position to \$2.9 billion ahead of schedule. And so that kind of feeds into, okay, now what are you going to do. Our priorities for the rest of the year are not changing. We're focused on rebuilding our balance sheet, and until we get to that approximately zero position on a net debt for the operating company, we'll continue to be focused there.

We will even when we get there be very judicious about making sure that our balance sheet is in the condition that we think it needs to be. So we'll manage our debt carefully. But we do need to transition then into, okay, well what are you going to do with the capital if you think about next year. And it's really about a framework around returns-based analysis that helps determine where we're going to make our investments. And really want to look at that relative to share repurchase. So whether that's what we're going to do with CapEx, R&D investments, M&A investments, and we're going to compare that to the returns that we think that we can get from share repurchase.

I would say that the framework is moving along well in the development phase. We've got a few refinements still to do. Our expectation is that we will roll this out at our Security Analyst meeting in the fall. So kind of stay tuned.

Scott Craig - *BofA Merrill Lynch - Analyst*

That's fair. And then just sticking on cash flow, still, when you look at the change that happened versus your expectations, take us through a little bit more detail and specifically on the working capital side of things. Can we still see improvement there that would make cash flow even better. Or have you run most of the changes out that you think you can do there?

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

From a cash conversion cycle perspective, at the end of Q2 we basically were at 21 days, seven days better than the year before. Again, that was a little bit ahead of our plan and I do think that we will stay maniacally focused on cash conversion cycle. It's one of the areas in the Company where most employees have an opportunity to influence it. And so we've spent a lot of education in the Company helping people to understand that. So I do think that we will stay tight on our cash conversion cycle.

There are upward pressures in the second half with respect to inventory and really that's because as we win really large deals, whether that's in the hyperscale space or other very large deals, you have to preposition inventory. I think of that inventory a little bit different maybe than typical inventory because it's completely committed. But we will see that as we are building to ship some pretty big deals that we've won in the second half and into the first part of the year. So that will put a little bit of pressure. But I do think that you can count on us to be very tight around our cash conversion cycle around the rest of the year and into the future.

Scott Craig - *BofA Merrill Lynch - Analyst*

Okay. Maybe a couple more from me and then I'll open it up to the audience. When you look at the cost savings programs that you've outlined historically, I think back when you were first talking about it, a lot of that was going to be reinvested. Now, that's probably not the case, but take us through how that's sort of evolved and how much is dropping to the bottom line. How much more do we have to go here still that can benefit the bottom line for investors?



Cathie Lesjak - *Hewlett Packard - EVP, CFO*

Okay, so in terms of the restructuring plan, let's just talk at the highest level here, the restructuring plan has both labor and non-labor components to it. The labor is on track. We basically have talked about how in fiscal '13 that we would save roughly \$2.2 billion, which is just shy of \$2 billion more than the previous year and that the non-labor savings would be roughly half of that. The non-labor savings is actually a little bit ahead. We pulled in some of the savings in Q2. We do still expect that the year is going to probably end up roughly the same and we think that that's probably the right way to model it.

We are taking some of that, as we talked about, about \$0.15, we talked about at the security analyst meeting, and reinvesting that back in the business. We're still committed to doing that despite some of the top line challenges that we've seen because we think it's important to invest in HP's future. And so we'll do that. We will also use some of the savings, frankly, to cushion the fact that the performance on the top line is not what we'd expect it to be. Macro is weaker than we had expected. Obviously, we've got some bright spots with printing and enterprise services, but some other challenges, especially with industry standard servers.

So we're kind of using that to talk about does it drop to the bottom line. Well, it cushions some of what otherwise would have been pressure on the bottom line.

Scott Craig - *BofA Merrill Lynch - Analyst*

I always have a lot of questions, but I want to give the audience an opportunity to ask some as well. So we've got one over here. Please wait for the mic. Thanks.

Unidentified Audience Member

Thanks very much. My question relates to Moonshot. I was just wondering if you could explain, first of all, how significant Moonshot can be of your server business over the coming maybe three years or so. And secondly, how you think about choosing the underlying chip supplies, whether it's X86 or ARM? What are the sort of key factors you will use to make these decisions?

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

So we launched Moonshot in April of this year and frankly, the response has been tremendous. The excitement about the product is strong. We're already taking our first orders. We are working very closely in our, I can't remember what it's called, I think it's called Moonshot Lab, but anyway, where we bring customers together in Houston to work with us on some of the key design wins that we should get from either the customer side or the partner side. So it's going well.

In terms of how material can it be, it's probably not going to have a big impact in the second half. It ramps going into through 2014 and then just to take it up a level, we think that it plays really well in the hyperscale space. We have been pleasantly surprised that enterprises are really excited about it as well. But in the hyperscale space, back up and talk about what that market looks like. IDC says that it will be roughly, hyperscale will be roughly 19% of the industry standard server market by 2016. That means eight to ten million servers are going to get installed in the hyperscale space and that's really the sweet spot for Moonshot. Moonshot is really redefining cost, energy consumption, and real estate.

And so we think that it can be very significant kind of as it ramps through '14, '15, and '16. It's going to be a material part of our business because it is our answer to hyperscale. Today, we are addressing hyperscale within the more traditional X86 and that just doesn't have the -- we don't think it has the right value proposition for our customers and it clearly doesn't have the right margin profile for us. And Moonshot's RIP and we get much better margins as a result.



In terms of choosing between X86 based or ARM chips, we're working with the vendors and our suppliers in that space to really make sure that we optimize for the workloads that make sense on Moonshot. And that will have ramifications for whether it would be an ARM based chip or an ATOM based chip.

Scott Craig - BofA Merrill Lynch - Analyst

Anyone else in the audience? Okay, Cathie, one question that I get asked a fair amount when I'm traveling and talking to investors is with regard to potentially moving some assets off of your balance sheet, selling them, whatever you want to call it. Can you talk a little bit about that? And then in the context of that as well, is there holes in your portfolio that you see that you might want to add some capabilities, maybe stuff like flash on the storage side or things like that, that might have to use up some of this great cash flow you've been generating?

Cathie Lesjak - Hewlett Packard - EVP, CFO

So with respect to divestitures, the right thing to do for any company at every point in time in their history is to continuously look at what parts of the portfolio no longer fit, where our ownership of it is not necessarily the best ownership, that there's someone else who can do something with and we will always look at that. We have not done anything -- we've done a lot of divestitures over the years. They tend to be relatively small. From an M&A perspective, today we're not -- our view is that we're not really hurting in any major gaps. That doesn't mean that we don't have opportunities that we look at to fill in from a tuck-in perspective typically around IP technology, and we'll continue to look at those types of transactions. We haven't done anything this year other than you will see on our cash flow statement and in our 10-Q when we file it, the emphasis, our majority owned subsidiary did make an acquisition of Digital Risk. And so that shows up on our consolidated results.

But it's the same sort of thing. It's kind of looking at smallish items that you can tuck-in. SO I think that over time you'll see us do more of those.

Scott Craig - BofA Merrill Lynch - Analyst

And how do you respond to investor concerns about the longer term growth rates of the sort of PC and the printer market? How do you think about those in the context of the -- from a longer-term growth perspective?

Cathie Lesjak - Hewlett Packard - EVP, CFO

There's no question that the PC market is extremely tough right now and contracting, and that the industry is going through really significant tectonic plate shifts, whether that's around operating systems, form factors, or architecture. And our view is that in the PC space, not the personal systems because the personal systems is in fact growing well, in the PC space that there will be -- that we're in a transition period where folks are kind of bifurcating their needs and choosing their device in a more refined way. But that over time that that will level out, but that it's certainly not going to happen in 2013 and it's very -- it's not likely to happen in '14. So it's going to continue to be a challenging market for us.

We do have different form factors that were coming out. We've got a great product line both for back to school and holiday that we're excited about. We've obviously rolled out our Slate 7, which is an Android tablet. We've got the Elite Pad 900, which is a commercial tablet, kind of the first of its kind with the security and reliability that enterprises want. So we've got plays in the tablet space and we are excited about the lineup. I will also tell you that in per common share we're focused on kind of long-term profitability, profitable growth. And so it means having the right form factors and the right products at the right time with the right price points. And I think HP has some work to do there. I really do think that as the customers have refined what devices they want to use, and at what price points, we also have to up our game in terms of understanding what the products are and not over-engineering products. And that's an area of opportunity to improve and then we've got to be maniacally focused on cost all the time, all the time in that business. It is just an absolute must.



Scott Craig - BofA Merrill Lynch - Analyst

And then what about on the printing side?

Cathie Lesjak - Hewlett Packard - EVP, CFO

For printing, we don't see that as a robust growth market. It is probably a market that kind of is up a little, down a little. What is key in that business for us is making sure that as that business kind of moves sideways, up a little, down a little that we actually maximize what we call the area under the curve. That's where all the profit is and we want to make sure that the supplies revenue per hardware unit is as large as it can possibly be. And so you see us make advanced business model changes, innovation around Ink Advantage. This is where we are selling hardware at a little bit higher cost and supplies at a little bit lower cost in emerging markets. And people, lots of people scratch their heads and say, how does that work. Is that really going to draw a kind of area under the curve. And it is.

And the reason it is, is that folks that are willing to pay a little bit more for hardware, print more, and they're printing more HP branded products. So what we saw in our very extensive, multiyear pilot was that about 30% more usage for folks that buy these Ink Advantage units. And we've now rolled that out to 120 countries. We are starting to see ARU improvements, average revenue per unit improvements because of the hardware pricing being a bit higher, and then also across all of our initiatives we're starting to see revenue, supplies revenue per unit inching up, which is really about maximizing the area under the curve. Just line in PCs you've got to stay focused on cost, you've got to be able to go after the low end and the low end has to be a good investment. Because we do sell these units at a loss, we make sure they're a good investment and we want to make sure that we get our costs down low enough to get kind of our fair share of really good business in kind of low-end price points.

Scott Craig - BofA Merrill Lynch - Analyst

Okay, and maybe just one more from me and I'll open it back up. But when you look at the printing business, how favorable, how much does the Yen move here help you guys from a cost perspective?

Cathie Lesjak - Hewlett Packard - EVP, CFO

It's important to understand that at least in the first half it really hasn't had a material impact. I would say in Q1 it had no impact. In Q2, a little but not material and it's really dependent on the contract that we have with Canon. So there are pricing mechanisms within that contract that take time to execute. And then also we've had hedges in place. That business is one that we hedge longer term and so we are going to see material savings in the second half, mostly in Q4. The downside to that is that our Japanese competitors, frankly, are able to have this war chest themselves to go after. So we do expect competition to heat up a bit even more in that space. But still, we do expect some will drop and what we are likely to do with that, maybe drop a little to the bottom line, but a lot of it we want to put back into the unit, Ink Advantage units and other units that really will drive kind of the future revenue and profit streams for the Company.

Scott Craig - BofA Merrill Lynch - Analyst

Let me open it up and see if we have -- a question over here. Wait for the mic please.

Unidentified Audience Member

The Canon printer engines, they're made in Japan?



Cathie Lesjak - *Hewlett Packard - EVP, CFO*

So Canada has kind of a vast supply chain. Parts -- some of the parts of the engines are made in Japan and parts are made in the US and other locations around the world. SO the Canon engine is not 100% Yen-based. Toner is 100% Yen-based.

Unidentified Audience Member

Can you give us percentage on stuff you buy from Canon and how much of it is Yen based?

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

I can't off the top of my head, actually. I'm not sure I would have shared it anyway, but I can't even give it to you because off the top of my head I don't know.

Unidentified Audience Member

Thank you.

Scott Craig - *BofA Merrill Lynch - Analyst*

Anything else from the audience? Up here in the front.

Unidentified Audience Member

Does the run up in DRAM prices present any significant to you?

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

I'm sorry, I didn't hear the first part of the question.

Unidentified Audience Member

Does the run up in DRAM pricing present any significant risk for you?

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

It puts obviously upward pressure on the margins, but that tends to be, I'm sorry, upward pressure on our costs. That tends to be an industry wide, and so typically prices do adjust for that. And so we see some margin compression. We saw some margin compression in the second quarter as a result of commodity prices DRAM being the biggest one. But it's not as if we're calling for it to be a big issue for us.

Yes?



Unidentified Audience Member

Suppliers, industries, whether it's memory or hard drives, they've largely consolidated. And over the last 20 years where you've had suppliers essentially losing money a decade at a time has helped drive PC costs lower. Do you anticipate that changing with the new industry dynamics with some of your suppliers over the next five years?

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

Our view there is that it's been a very cyclical -- I mean capacity constraints and it gets capacity -- over capacity in the market and we see that as a pretty consistent cyclical. We're not really calling for something to be fundamentally different into the future. And again, as long as it's industry wide and everybody basically deals with the same dilemma then prices generally adjust.

Scott Craig - *BofA Merrill Lynch - Analyst*

Got one over here.

Unidentified Audience Member

Just like to talk about PCs a little bit. Now that Haswell has been launched and presumably you're going to launch a number of laptops running Haswell, which has substantially greater battery life, I was wondering if you could share with us, first of all, what's the reaction from your channel partners on these parts and on these laptops with pent up demand excitement for the second half? And second of all, whether you think that the sort of 10 hours battery life that Intel has talked about is enough to revive the PC market on a sort of 12 to 18 month basis?

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

Again, I'd go back to some of the comments I made earlier in terms of what's going on in the PC market. I mean these tectonic plate shifts are driving kind of different desires by customers at different segments across operating systems, architectures, and form factors. And we are rolling out kind of all of the different form factors that we think are going to be important to customers both on the consumer side as well as on the enterprise side. And we are seeing excitement about the -- kind of the lineup that we have for back to school and holiday from a consumer perspective.

And then from a commercial perspective, really being able to provide CIOs, enterprise CIOs with choice that has security and reliability like the Elite Pad from a tablet perspective is important to them. And there's still a lot of on, I guess, evolution that's going on even within the enterprise customers around bring your own device to the office. And having a solution or a, I guess, a range of products that they can offer and have that confidence is really important to the CIOs. And I believe that over time what will happen is there will be that segmentation of for these types of usages, a tablet is perfectly fine. In other cases, they've got to have compute and that's going to basically level out over time. But it's probably a couple years before that really levels out and you really see kind of who wants a tablet and only needs a tablet, who needs full compute, who can use a thin client in the enterprise space. And so there's just a lot of shifts going on right now that creates obviously opportunities as well as challenges for the business.

Scott Craig - *BofA Merrill Lynch - Analyst*

Anyone else in the audience? Cathie, could you talk about the services business and sort of the turnaround and the plan there because that's obviously going to be an important part of driving profitability for the firm given its size and given where you think it can kind of move from where it is today. So we'd love to get an update there.



Cathie Lesjak - *Hewlett Packard - EVP, CFO*

From a strategic perspective, it's important as well because when we talk about basically delivering solutions to the new style of IT, you can't do that without enterprise services. So that is a key strategic asset for us as well. As you look at what happened, how we performed in Q1 and Q2, a big part of the outperformance really came from the enterprise services business. It is getting legs right now and the legs that are getting it is becoming predictable. For the last three quarters, I can tell you that what I was told the business would do at the beginning of the quarter is in fact what they did. And you may smile. That should have always been the case in the enterprise services business. It has not been. So I believe that we're kind of, like I said, getting our legs here.

We have benefited in the first half from some of the exceptional runoff delay. But it's not -- the outperformance isn't all due to that. It's also due to the fact that in the transitions on some of these big deals that are moving, that are being in-sourced, we took advantage of selling in projects that helped them transition, that helped cushion the revenue a bit, plus that's very profitable. We're also making real operational improvements in underperforming contracts as well as around our resource management and really understanding what labor we need and what labor we have, and marrying the two.

And so I think we're making good progress there. From a signing perspective, Q2 signings on a quarter-to-quarter basis was better. Some would say it was very good. I'm a little bit of the glass is a little bit half empty because it was so tilted to renewals, we need to see more new logos. But starting to make some traction there. We did talk on the earnings call, we basically upped our outlook a bit around enterprise services for this fiscal year. So originally at our security analysts meeting, we talked about revenue being down 11% to 13%. We now think it's going to be at the lower end of that. That's great news for this year. It makes for a much tougher compare and a headwind to growth next year.

And then on the profit perspective, we guided at the security analyst meeting 0% to 3% and now we think we're going to be for the full year at the upper end of that. So I think we are making good progress. That business over the long-term, we still believe given the mix that we play with is a 7% to 9% operating margin business. It will take us some time to get there and we also think that from a return on investment capital it's a kind of 15% plus ROIC.

Scott Craig - *BofA Merrill Lynch - Analyst*

I remember having lunch with you probably a year and a half ago or so when you specifically pointed to call centers as being one of the areas that you were really struggling with profitability wise. Is that part of the rejigging of contracts? And sort of where are we in the life cycle of that specific business? Because I think you might have even mentioned it was operating at a loss at a time.

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

I'm not sure I was ever that explicit.

Scott Craig - *BofA Merrill Lynch - Analyst*

I have it in my notes.

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

That doesn't mean anything. So I think the call center, and it's actually workplace solutions was also kind of the area that we are very overweighted. Our market share in that space is three times larger than our next competitor. We are number one in that space. It's very fragmented, but nonetheless we're three times larger and I will tell you that originally we thought that was going to be a challenge. Now, we actually see it as an opportunity. The opportunity that we see is that as companies go to either bring your own device or more likely, we believe, choose your own device from a catalog, having a services arm that can really manage that for the CIO is going to be huge. And we now have developed a practice around bring your own device or we call it our mobility practice within enterprise services.



And so taking kind of something that was pretty vanilla and at times very difficult to maintain good customer satisfaction and profitability or strong profitability into something that is really answering a pain point for CIOs we think is going to be very important for us.

Scott Craig - *BofA Merrill Lynch - Analyst*

Let me see if there is questions here in the audience. I can keep asking all day. When you look at the combination of the PSG group and the IPG group, historically if I looked at it, the margin would be sort of like 9% to 10% I guess. But you're clearly going to get some efficiencies. Does that expand over time and there's clearly pressure in those businesses as well, which might make it challenging. So I'm just curious how you think about a longer term operating profit target for that group?

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

So one of the benefits of bringing -- or there's two big benefits of bringing IPG and PSG together. One is pure cost, just the opportunity to reduce redundancy and kind of related to that is, frankly, a different kind of mindset around expenditures. If you look at IPGs traditionally with a very lucrative margin, very high ROIC, that kind of sets a different tone around cost than one in the PC business, which is dog eat dog, got to stay focused on cost. And so we're changing that mentality, which is think is very positive for IPG. And then the other -- the real benefit of bringing them together, the synergy is around go to market.

The overlap between IPG and PSG's kind of customer base is very significant. And so really then taking kind of putting all the wood behind one arrow from a go to market perspective has also been positive from those businesses. And given that both businesses are very much wanting to go after the low end, any opportunity to cut costs and make savings in a very effective way allows us to go after more of kind of the low-end price points. I will also tell you that in both cases, and the same is true frankly within industry standard servers is that as customers refine what products and devices they're looking for at different price points in different markets around the world, we've got to do a better job of right price, right product at the right time in the right market.

Scott Craig - *BofA Merrill Lynch - Analyst*

We have a question up front over here.

Unidentified Audience Member

Your ISS has been underperforming recently. You publicly acknowledged that and what are you doing differently to reverse that trend?

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

You've really got to think of the ISS business as kind of a two part business. One we call mainstream and the other is really hyperscale. So I will acknowledge again that the industry standard server performance in Q2 was not satisfactory at all and we are taking actions to improve that. And I also just briefly want to talk a little bit about the fact that in enterprise group and industry standard service specifically, as the market kind of competition has increased and aggressive prices are kind of a thing, a norm, we look at deals that make losses and we think of them as investments. And if that investment has a return, then we will be very aggressive on pricing and go after that business.

But in Q2, there are a number of deals where the pricing was so ugly that it just couldn't give us a return and we walked from that business. And that did impact industry standard servers. Then within hyperscale, where our hyperscale revenue was down mid-single digits year-over-year, hyperscale is a very lumpy business. For those of you who don't know, those deals are massive deals, very large deals that can tip many, many points of market share in a quarter. And they are also are with very concentrated customers. And our year-over-year compare was definitely impacted by deals that we did last year in that space.



And just another data point that I think is important that almost half of our market share decline was in the hyperscale business. So our answer to that is Moonshot and I talked a little bit about the fact that Moonshot really does revolutionize kind of how people think about the hyperscale market from a cost base and energy perspective. In the mainstream, which is really volume business, really heavily channel oriented, in our -- at our global partner conference earlier in the year we basically rolled out new channel programs or announced new channel programs and those are taking effect or took effect at the beginning of May. So they're really a second half impact.

And I think then, finally, I'd conclude by saying, listen, at the end of the day we believe that the future of our industry standard server business and our enterprise group business more broadly is really around conversion of the structure and the software-defined datacenter. And we're making the necessary investments today in order to deliver on that future.

Scott Craig - BofA Merrill Lynch - Analyst

Cathie, from understanding that there is some pressure on the top line and stuff, but you do have a lot of levers to pull, how conservative are you being on your full year guidance do you think? You've raised it now and is this something that we think will become a typical pattern now?

Cathie Lesjak - Hewlett Packard - EVP, CFO

So just make sure everybody is level set. We did kind of narrow our range for the outlook for the year on EPS. We were originally at \$3.40 to \$3.60 and then we narrowed it to \$3.55 to \$3.60. And I never really think of it as conservative. There's a lot of volatility in the market. There's uncertainty around the macro. Obviously, we've got our own execution challenges that we've got to continue to work on. So kind of midpoint of \$3.55 I think is kind of a good outlook for the year. We're very focused on making sure that we invest for the long-term and that shows up in interesting ways. For example, in Q2 our operating expense year-over-year was down I think it was 5.3% whereas revenue was down 10% at the total Company level. And one school of thought, people were saying, wow, can't you get your act together on cost. If revenue is coming down 10%, shouldn't cost have come down 10% and that's where it shows up where it's the fact that we want to continue to invest in the future.

So we're tightly managing on kind of our results so that we make the investments that we need to make and deliver on the commitments that we have made around our EPS.

Scott Craig - BofA Merrill Lynch - Analyst

Got a question over here.

Unidentified Audience Member

I can't resist asking a geography question, specifically Europe. If you had to put Europe -- obviously has a lot of different sectors to Europe, Eastern Europe, Southern Europe, Northern Europe, but it's been obviously a financial issue for 12, 24 months. How do you view Europe over the next year currently and how are you rationalizing OpEx in Europe?

Cathie Lesjak - Hewlett Packard - EVP, CFO

So our view of kind of macro in EMEA is that it doesn't get materially better. I mean that's our basic planning assumption and our expectation. We haven't seen an improvement there at all. In parts of Europe, I will tell you that kind of Eastern Europe there's pockets of good growth. But for the most part, it hasn't improved. It hasn't gotten worse and so we're basically calling for it to stay roughly where it is. From an OpEx perspective, obviously as revenue is pressured in those locations, we are looking at improving our sales productivity. Again, making that balance and it is a balance because we don't want to take it down too far and not -- and walk away from kind of the investment for the future. But at the same time, we want to be responsive to the fact that it's a tough market.



Scott Craig - *BofA Merrill Lynch - Analyst*

All right, with that, Cathie, I'm seeing the red numbers out there. So I appreciate your time. Thank you very much.

Cathie Lesjak - *Hewlett Packard - EVP, CFO*

Thank you.

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