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# EDITED TRANSCRIPT

HPQ - Hewlett-Packard at Needham Growth Conference

EVENT DATE/TIME: JANUARY 14, 2014 / 5:05PM GMT



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## PRESENTATION

**Rich Kugele** - *Needham and Company, LLC - IT Hardware and Cloud Infrastructure Hardware Analyst*

Welcome again to the 16th Annual Needham Growth Conference. My name is Rich Kugele, and I am the IT Hardware and Cloud Infrastructure Hardware Analyst for Needham. It is my pleasure to begin the keynote here with Mohamad Ali, who is the Chief Strategy Officer for HP. Introducing Mohamad, we have John Prior, the Chief Executive Officer of Needham.

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**John Prior** - *Needham & Company, LLC - Chief Executive Officer*

Thanks, Rich, and good afternoon. First, welcome to the 16th Annual Needham Growth Conference. When we did the first Needham Growth Conference, and it wasn't clear it was going to be the last Needham Growth Conference, Russia had melted down, Asia had gone to hell. We thought stocks were undervalued as a group and we would have 60 of them get together. We had no idea what a one-on-one was when we had the first Needham Growth Conference. But we said the market can't get any worse, so let's do it. 10 years later, it's 2008. We had figured out what one-on-ones were. We had figured out that this should be a three-day conference. But instead of putting candy and fruit out, we should have put Prozac out.

Today, we face a different phenomenon entirely. They spent \$140 million rebuilding this place, and it's a bit like a rabbit warren, but it looks a lot better. We have 395 companies here. The linear program choked at 8,959 companies four days ago, so we know there's over 9,000 requests for meetings. And more than two-thirds of those have been fulfilled, so thank you.

This has always been about trying to identify opportunities where there's been great value. And many of you over the years have been faithful in coming and have identified those opportunities. Today we have the opportunity to hear from somebody driving the vision at a company where, if you didn't own it last year, you underperformed. It's been a great turnaround story. And here to tell it is Mohamad Ali.

He's had experience as an entrepreneur. For those of you who've competed against IBM in the last 10 years in the software space, you probably have him to thank about how hard that's been. He's had another entrepreneurial stint after that, and for the last two years he's been helping to drive the strategy and the turnaround at HP. So without further ado, I'd ask Mohamad Ali to join the stage.

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**Mohamad Ali** - *Hewlett-Packard - Chief Strategy Officer*

Thank you. Good afternoon. Thank you. And thank you for that nice introduction. And thank you for the opportunity to present HP's strategy today.

I think you all know our technology sector is in the midst of likely--of one of the most transformative periods in history. And I'm quite excited to talk to you about it today. But before we get into how we're positioning HP for the future, I would like to talk a little bit about my background so you have that context.

I started out my career at Adobe Systems, which back then was a small company down the road from Hewlett-Packard. I was then part of an analytics software startup before the time Big Data was like an exciting thing. And then I joined IBM to see what it was like to work for a big company, and I got stuck there for 13 years. That turned out to be actually a tremendous personal growth experience. I was able to manage a number of businesses in hardware, software, and services. And I was able to lead some of IBM's largest acquisitions to create what is today called Business Analytics at IBM, also known as Big Data to the rest of us.



I then joined a company called Avaya, which you might have heard of. It was owned by Texas Pacific Group and Silver Lake, and still is today. There I led strategy, and then I was also President of the company's services division.

And then after a short period of advising Golden Gate Capital in one of their portfolio companies, I actually had the choice of becoming Chief Strategy Officer of one of two of the largest technology companies in our industry. And I won't tell you who the other company was. But for me there was no question that Hewlett Packard, the original startup, was the right fit for me. And that was about 18 months ago, and I've had no regrets. It's been quite an 18 months as I think some of you know.

Before going too much further, I'm going to give you our legal disclaimer, which this audience is probably very familiar with. Some other audience, they wonder why you put this stuff up. And this is obviously to remind you that my discussions today may contain forward-looking statements that involve risks, uncertainties, and assumptions.

So my objective today is to help you appreciate the strategic direction of HP and how we're set to capitalize on the changing market dynamics. I know many of you are already familiar with the company, but for those of you who haven't been watching us closely, I'm going to spend a little bit of time giving you the context of who we are today, because who we are today is actually different than who we were even 18 months ago.

So let me start with our background and our most final--recent financial performance. HP is the world's largest provider of information technology infrastructure, software, services, and solutions to individuals and organizations of all size. In our most recent year we generated over \$110 billion of revenue across the world with support--with the support of our workforce of more than 300,000 colleagues and a partner ecosystem that's really unrivaled in the industry.

We're number one or number two in most of the markets in which we participate. And we've continued to invest in innovation to extend our leadership. And I'm going to talk about that investing in innovation much more during this talk. After all, this is a growth conference. And I'm going to talk about our areas of growth.

The financial results and market positioning are very important, but ultimately it comes down to what solutions--what the solutions do for our customers. And you can see on this slide how our products and services touch a variety of different industries. And relevant to this audience, you'll see that we power 130 of the world's equity and commodity exchanges. And hopefully you were able to attend this conference by booking airline tickets that were likely enabled by HP. But I also know many of you are local, and hopefully not too many of you live in New Jersey and had to take the George Washington Bridge, because I understand there are problems there.

But if you looked even closer, you will see the origins of the four anchor points of our strategy - cloud, mobility, Big Data, and security. Cloud - we support 100 petabytes in managed data centers, which we are transitioning to private clouds. Mobility - we provide infrastructure for 300 mobile phones. I bet you most of you didn't know that. I didn't know that until I got to HP. Big Data - we manage 13 billion credit card transactions annually. And security - we detect and quarantine 3 million viruses annually. I will speak more about these four anchor points of our strategy - cloud, mobility, Big Data, and security, shortly.

Organizationally, we operate in four major business groups - enterprise services, printing and personal systems, enterprise group, and software. Not shown here, but equally important, is that we have a financial services arm that provides finding--financing solutions to our customers. So we can provide this unique combination of hardware, software, services, and financing to our customers that few others can.

Our revenues are roughly balanced amongst four large segments - enterprise group, enterprise services, personal systems, and printers. And it's globally diversified, with more than 60% of our revenues coming from outside the U.S. From an operating profit perspective, the largest share of our profits come from the enterprise group and printing.

As I mentioned earlier, this is one of the most dynamic periods in the technology sector's history. Every 10 to 15 years there have been major shifts in the industry, such as the shift from in--from mainframe to client server, and to the internet. Along the way, new companies and business models have disrupted the legacy systems. And the companies that have embraced the change and innovated accordingly are the ones that have succeeded. And that's very important. It's hard to embrace the change sometimes when you helped create the legacy systems. It's absolutely critical that we



embrace the change and innovate accordingly. We are in the early stages of this latest wave, as cloud, mobility, Big Data, and social transform how both our customers and enterprises manage and consume information.

We characterize these trends as the new style of IT, where the old systems and processes will have to be updated to address the opportunities ahead of us. As with most major shifts, these new dynamics put significant pressure on our existing IT systems. There are continuous pressures on our customers to simplify architectures, innovate at a rapid speed toward agility, and managing risk is critical. And all the while, there is constant pressure on reducing costs to do more with less.

Our customers are watching these dynamics play out and need a partner who can bring comprehensive solutions that bridge them from the past to the future. They need a vendor who can provide hardware software solutions with integration across these platforms.

So with this backdrop, let's move into now how we're positioned for these markets. What's our strategy? In a single sentence, HP's strategy is to provide solutions for the new style of IT, to take our customers from where their technology is today to where it must be to complete--compete in the new world order. Computing demand is at an unprecedented level. From the beginning of humanity to 2003, we, the human race, created five exabytes worth of information. Today we create that much information in just 12 hours.

CIOs face an incredibly daunting task. They need solutions that integrate the very best components in an increasingly complex landscape, and also realize the full potential of this new style of IT. And doing those together is hard. HP has a unique ability to deliver across the full spectrum, to integrate end-to-end from the device to the data center, including infrastructure, software, and services, as well as develop and delivering compelling new solutions in cloud, mobility, Big Data securely.

So let me now outline our four major business groups and how they are delivering these innovations to our customers. In enterprise group, we provide server, storage, and networking solutions. But increasingly, our customers do not want silos of servers, storage, and networking, which are really unable to efficiently leverage each other. They want to treat those devices as a single pool of readily interchangeable resources. They want what we call converged infrastructure. HP pioneered the term converged infrastructure, as well as the technology. And we are further changing the game with Moonshot, our latest technology that delivers compute at 77% less cost, 89% less power, and 90% less space. This is a revolution in this space. Just like we drove the revolution of blades, Moonshot is a revolution in compute going forward. And there is more to come. And we will win with innovation, both technology and business model innovation.

Similarly, within the data center, hardwired networking, storage, and servers are no longer acceptable. But now we are billing these as flexible blocks that can be reconfigured with software, which together constitutes what you might have heard called software defined things. But in this case software defined data centers. Again, fundamentally changing the cost profile. And HP is leading the marketplace with over 50 products that are already open flow enabled. And open flow is one of the key elements to make this stuff work. And we have a strong application ecosystem to extract value for the customers.

Today, servers, storage, and networking are primarily consumed on premise. You buy a bunch of these things. You put them in your data room. Increasingly, this will be consumed as a service. HP is leading the way with converged cloud, built on open stack. An open stack is an open software operating layer to drive cloud deployment. And this gives the customer a, an open architecture, and b, a solution that is enterprise grade, whether she is building a private cloud, meaning a cloud within your data center, using HP's public cloud, or using a cloud from one of our open stack service partners. So there are really three ways you can get infrastructure as a service. And with the open stack based solution that we provide into each of those three, you could also mix and match. Hence, the hybrid cloud. And this is what we call HP's converged cloud strategy.

Today, we have over 1,900 large converged cloud customers, and over 250 certified partners. One-third of Fortune 100 companies run HP converged cloud. And let me repeat that. One-third of Fortune 100 companies run HP converged cloud. So that's a big deal. I think earlier today I met with some of the--some of your colleagues, and someone said, hey, how come we don't hear about HP in the cloud? Well, our customers are hearing about us in the cloud. Our customers are deploying our cloud solutions and they're actually deploying it at large scale. And over time that message, we expect, will come out louder and louder and louder. Just recently we were recognized by Forrester in a leader quadrant. That's new for us. But having said that, this is a cloud initiative that's relatively new. When Meg came to the table a couple of years ago, she realized how important cloud



was. And as a result, we've been driving very hard, and I would say in about 18 months made a tremendous amount of progress. So just watch this space.

In software, we have a strong portfolio that includes several disruptors in cloud software, security, and Big Data. Our hybrid cloud software is a leader in both scale and content, managing over 100,000 physical and virtual servers at once, and supporting over 5,000 IT operations work flows out of the box.

We have a very strong portfolio in security with our ArcSight, Fortify, and TippingPoint products. For example, at one customer we prevent over 78 million intrusions per month. And in Big Data we have launched HAVEn, which stands for Hadoop, Autonomy, Vertica, E for enterprise security, and N for the N applications that you build on top of this platform. The industry's first comprehensive open and scalable platform to manage 100% of available information securely. And when I say 100%, I mean all the structured stuff that we're all familiar with, as well as all the unstructured stuff - the documents, the voice, the video, et cetera. Between Vertica and Autonomy, they can cover both.

Having spent my early days with an analytics startup and being a key leader in building IBM's business analytics portfolio, I tell you this is one of the best platforms for modern Big Data. We recently won a big deal at Facebook. Here is what one analyst had to say, quote, for Facebook CIO Tim Campos to get on the stage and declare that, quote, a partner like HP Vertica thinks like we do, unquote, and is a key part of Facebook's Big Data capabilities, is one of the best endorsements any modern IT infrastructure vendor could hope for. And now we have launched a new software as a service website, such that our customers can consume our software the way they want.

The new style of IT - cloud, mobility, Big Data, and security, represents a significant growth opportunity in services as well at 11% CAGR over the next three years. In the shift to the new style of IT, we are building our services offerings around seven solution areas, four of which I will describe here.

First, work load and cloud solutions, which include the services to modernize the application work loads and move them to the cloud, and the actual private clouds themselves, flexible and secure, on which these applications run. That's the first one.

Second is security offerings, which include security consulting, security technology, and managed security solutions.

Third is analytics and data management, which are advanced, data-intensive analytic services to identify business opportunities and optimize our customers' business performance. And if I have time, I will show you an example of how we are applying these analytic services to the HP transformation.

Fourth, workplace and mobility solutions, which include--which integrate multiple devices. And we all carry multiple devices these days, some personal, some business, with enterprise apps. Securely and efficiently support bring-your-own-device and choose-your-own-device. If you noticed, these four solution areas align tightly to cloud, mobility, Big Data, and security, the new style of IT, which is our strategy.

In our personal and printing systems business, the new style of IT is about making devices that delight end users and require no compromise between what employees expect in their personal life and what they expect at work. That's the goal. In personal systems we are reinventing the core with next generation all in one desktops and ultra-slim notebooks like the Spectra, which is an extremely elegant ultra-slim notebook. If you haven't seen it, you should go check it out. I use it. It's excellent. And it's also available as a hybrid. So it's a tablet, then it transforms to a notebook, back to a tablet, et cetera.

We are expanding in mobility through multi-OS, multi-architecture, and new form factors such as tablets and hybrids. For example, Chrome and Android-based products represent an opportunity of \$46 billion in 2016. And hybrids represent \$12 billion in 2016, growing at 65% annually. And to deliver more revenue and profit, with each device sold we are expanding what we call beyond the box. And examples include HP Connected. Customers have their photos, music, and video content stored across numerous ecosystems. I'm sure you do. It's scattered everywhere. Through a cloud, HP Connected aggregates sources--these sources with a single sign-on across all your devices for seamless access.

A second example of beyond the box. HP Smart Friend services. So this is 24-7 customer service. You have a problem with your device, you call, and HP will help you fix it. It may actually be with something that's not an HP thing, but as long as you have an HP device, we will help you with it. And so with any of your personal systems needs. This is a key service to add revenues and profits to our core devices business.

And then a third area of beyond the box is accessories. This is a \$43 billion market in 2016, growing at 12%. And HP is aggressively adding SKUs to drive profits and growth.

In printing, HP continues to lead with product and business model innovation. The Office Jet Pro-X. Anybody here heard of the Office Jet Pro-X? Raise your hand if you have. Okay, two people. This is actually a really exciting product.

Sometimes it's hard to get excited about a printer, but this is one that I'm excited about. The Office Jet Pro X is really an innovation marvel that finally brings ink into the office market, where laser has traditionally occupied. And this is a technology breakthrough that came out of the HP lab. It's a whole new way to print. Today the Office Jet Pro X is the world's fastest desktop printer, great, amazing quality at 50% lower cost and two times the speed of laser.

So what this means for HP is higher profits and lower cost to the customer. This is actually a huge deal for us. So if you think about printing, for every printer you ship, you can ship it with a higher profit margin and lower total cost of ownership to the customer. Everybody wins. That doesn't happen that often. This is a big deal for us in printing.

Instant ink. This is an ink subscription model. You don't buy these toners. They show up in the mail. You pay a monthly fee. So it's an ink subscription model that reduces printing unit cost up to 50%. You never run out of ink. It lowers carbon footprint by 65%. But most importantly it increases customer stickiness and customer loyalty. And so the economics of this is actually good for everyone. Not often does that happen, either. And so this is another big deal for us. And this one is not a technology innovation. It's a business model innovation.

Additionally, mobility is changing how content is consumed. As a result, HP is delivering integrated mobile print experience. So when you buy your tablet, you should be able to print right from it. You shouldn't have to install anything. So in-OS printing. What we found is that owners--tablet owners whose device is print-enabled, and you have to assume they have another device--other devices like PCs and printers in their homes, because they're printing somehow. If you have to print your boarding pass, you go to your PC and you print it. You might get it on your tablet. But if you have your tablet enabled, what we found is that those people actually print 40% more overall pages than those who happen to have a tablet that don't. So you know printing world-wide shows flat. There is actually some upside if one can enable it.

Our printing products are also key to HP's cloud and Big Data strategy. I have a lot of people that say how does printing fit into cloud, Big Data, and mobility security. I'm going to tell you. So HP multi-function printers, which include scanners--that's important, right? So there are all these printers out there, many of which are multi-function printers now, and you can scan, are effectively digital on-ramps for data that can be scanned in, and off-ramps. And so you can actually use these on-ramps and off-ramps to create efficient business processes leveraging HP's cloud-based work flow solutions.

And so I'm actually working with a customer right now to do this. They actually have forms all over the place. They have paper all over the place. And it just keeps coming in, no matter how much you try. And so this is a mechanism for streamlining all that work flow, especially given the unstructured content that's sitting on these pieces of paper. And given the fact that we have the Autonomy solution that deals very well with unstructured content, we can do that. So what you see here is a printing play in Big Data, right, because there's all this data, unstructured data out there that is able to now ingest. And cloud, because these work flows are cloud-enabled.

So across our printing and personal systems portfolio we deliver manageability, security, and serviceability across a wide array of devices that please CIOs as well as their end users. And we are doing so through tremendous innovation, both technology and business model.

As we've shared to the investment community previously, we are managing a full portfolio that contains businesses that are declining, businesses that are stable, and businesses that are growing where in some cases we are the disruptors. We are navigating transitions within our portfolio in some cases, while we are investing in new growth opportunities in other areas.

In this view you can see that we have many parts of our portfolio that provide significant growth opportunities that align to cloud, security, Big Data, and mobility. And we bring the power of the portfolio together to help our customers move into the new style of IT.

But strategy is hollow without execution. We have talked to you previously about the operational improvements we continue to drive across the company. And so I thought I would spend a few minutes giving you an example of how we're applying the new style of IT that I just talked about and all these tools and capabilities to transforming our own company.

So here's one example, and we have many of these examples. HP today buys a large amount of commodity components for our products, for our servers, for our PCs, for our printers, etc. Using a massive amount of data, external data as well as internal data, and our HP Vertica database, the same one that Facebook will be using, we were able to build a price forecasting model that improves our prior model by between 6% and 12%. And you know in the financial market, if you had a model that improved anything by 6% to 12% you probably wouldn't be in this room today. You'd be off doing something else. This is a meaningful improvement. And as a result, it has significantly improved our use of cash on these components. And this really wouldn't be possible without these modern HP Big Data products and the Big Data services skills that we are bringing to the table.

And so as you think about companies that have gone through transformation, and I have worked in the companies that were owned by TPG, Silver Lake, Golden Gate Capital, there is a fair amount of heuristic approach to transformation. This is probably one of the first very large scale transformation that is so data intensive. And we're driving the transformation with a lot of data. So what we go out and we tell our customers is what we're applying to our own company. And hopefully you can see the improvements in the company.

So with that, let me thank you for listening, and thank Needham for having me here today.

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## QUESTIONS AND ANSWERS

**Rich Kugele** - *Needham and Company, LLC - IT Hardware and Cloud Infrastructure Hardware Analyst*

So what we thought we'd do is over the balance of this session, which should end about 12:55, is we'll turn it into more of a fireside chat format. I'll ask some questions. Then I'll turn it over to you so be thinking of what you'd like to ask. Thank you again.

I thought maybe one of the best places to start would be obviously the stock has performed extremely well over the past year. But in strategic perspective, what do you think is the most important decision that you've been a part of in formulating the strategy over the past 18 months? And then as a follow-up, Meg traditionally talks about the five-year turnaround, and we're kind of a couple years into that. Is that also the same on the strategic side to get to where you want the company to be a few years out?

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**Mohamad Ali** - *Hewlett-Packard - Chief Strategy Officer*

Absolutely. So people are interested in our stock price. We're obviously very pleased with the performance of the company. Meg has been very open about where we are and where we need to go. And we believe that transparency is critical. We've made a lot of progress. So we have a ways to go. You drew the distinction between the strategic perspective and the other perspective. They're one and the same. When I came here 18 months ago—for those of you who don't know, Meg's background is deeply rooted in strategy. She started her career at Bain. And so I don't think I've ever worked for a CEO who had this much appreciation for my job, right, for strategy, because she lived it. At Disney she effectively had my job. And so when you see Meg talk, Meg is talking to strategy. And what I just went through, it's one and the same because we will obviously develop it as a team.

The five year transformation is an integral part of our strategy. Clearly the first few—couple of years was stabilizing the company and getting the cash position to the very strong position that we're in today. On the operating side of the company we are now net cash positive, which is a vast improvement from 18 months ago. So it's a big part of stabilizing the company and the next few years we are going to be transforming the company into its leadership position.



And I guess the key thing that you asked about, what do I feel like I contributed to. One of the most important things going forward is our execution on cloud, mobility, Big Data, and security. And these are not new things. It's not like we get rid of the old and start with the new. We're taking--as I've shown you, we're taking each of our businesses and transitioning them to deliver according to these new models. So servers, storage, networking--yesterday people bought these things and put them on premise. Tomorrow they're still going to be consuming all these things, except they're going to be consuming it through a pipe as a service. And so we're still going to be making these things. We just now have to ensure that we are providing it to the customers in the way that they want. And so executing on cloud, mobility, Big Data, and security I think is critical going forward. And in some ways I feel that that's something I've contributed to and I'm on the hook on to help us actually execute it.

The one nice thing about being here at HP and working with Meg is that very early on, Meg laid out a strategy. And we are sticking to that strategy and we're going to execute that strategy. And what I showed you here is a long-term strategy. Someone earlier today asked me what's the strategy this year. And the strategy this year is what it was last year, which we shared. And it's very similar and it'll be next year, and we'll iterate and refine it. And we're going to keep going down the path.

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**Rich Kugele** - *Needham and Company, LLC - IT Hardware and Cloud Infrastructure Hardware Analyst*

Clearly mobility being part of this strategy that you've been outlining for some time, a lot of investors call us and ask well, isn't PC dead, HP missed the smart phone transition after actually being early on with the iPad--other devices. How do you re-energize the customer base, both corporate and consumer, for PCs, and how does HP directly participate, if necessary, in smart phones?

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**Mohamad Ali** - *Hewlett-Packard - Chief Strategy Officer*

So the first thing I want to say is mobility isn't just about the devices. There's a whole stack of value creating opportunities within mobility services. There's substantial services value. And as a matter of fact, you look at the profit pool, services and software actually dominate the profit pool for mobility. And devices are important as an element, and we participate in that. And I will answer your question. I'm not evading the question. But we also participate in the other parts of the stack.

So for example, Emirates Airline carries the--if you've flown on Emirates Airline, the flights attendants carry around an HP tablet. And they can do a lot of things on that tablet. If you need to be upgraded to first class or what, they can do it all on that tablet. But there's a whole set of services associated with setting the back end for that up, getting the application right on it and so forth. And there's a lot of mobility services there.

Many of you work for banks, right? You have all these mobile devices. Your bank IT organization does not want to be managing all those devices. There's a whole managed mobility piece of it. There's the software, and in - at HP we have to have a fairly well-developed software set of solutions to manage into your desktop. Well, tomorrow we're going to be managing the desktop on your mobile devices. It's the same software. It's evolving. We have versions of it that are today managing your mobile desktops. There's a lot of software. Now on the devices side, we have elected to play in areas that are compelling, right? So new form factors. The hybrid--the device I mentioned is Spectra. The Spectra is actually a great--I mean, I love it, right? And I'm not just saying that because I work for HP. It's a really nice device. And not only is it a nice notebook, but it's also a nice tablet. That category is actually growing relatively fast, and we will continue to invest heavily in this hybrid category. Intel calls it the two-in-one category.

You asked about smart phones. Smart phones is an area where Meg has said if there is an opportunity for us to participate in smart phones in a manner that makes sort of economic sense, we will do that. But as many of you know, you can lose a lot of money in smart phones. And we wanted - we want to do these things thoughtfully and financially responsibly. So the categories in PC that we play in today, the PCs and the notebooks, to the extent that those categories are evolving to a growth area. All-in-one is a growth area for desktops. Hybrids is a growth area for tablets and for notebooks. Commercial tablets like the Emirates Airline example is a growth area. Those areas we're participating in heavily. And they actually are--there's profit to be made there.

And areas where it's unclear how we're going to build a great business like may possibly phones--cell phones in the U.S. Like we have not yet figured out what the right business model is, we're going to wait until we figure out what the right business model is, because at the end of the day, we need to be financially responsible with the company.



**Rich Kugele** - *Needham and Company, LLC - IT Hardware and Cloud Infrastructure Hardware Analyst*

Facebook, Google, Amazon - many of these companies have been focused on white box type devices within their own data centers or building them themselves. What's your view on that? How--I know you have Moonshot, but no--how do you expect to compete with that going forward, and how does HP play--prevent this from happening?

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**Mohamad Ali** - *Hewlett-Packard - Chief Strategy Officer*

So every industry goes through this, right, where there's a new category, there's a lot of IP around that new category, and over time that IP is diminished. And if the industry does not remake itself in a high-IP defensible position, then you sort of end up with a commoditized environment. So what we've been doing is we've been building this thing called Moonshot. Many years ago we pioneered this new category called blades, and did very well in blades. And now we have to create this new category called Moonshot. And our first version of Moonshot out, as I mentioned--I gave you the specific--it can do what traditional technologies can do in one-tenth the space and one-tenth the power, right? That's something that others can't touch. And as we evolve that technology, it will outperform even today's technology even further. There we have a lot of IP. It's that defensible. So that's sort of the next wave of things that we're working toward.

Having said that, today's technology is not disappearing. I mean, the market is actually showing that the current server, storage, networking continues to grow. But we're anticipating a change. And we can't--the change can't just happen to us. We have to drive the technology innovation like HP's done for 75 years. That's what we're about. We're about that technology innovation to get to that next generation. Once we get to the next generation, it will be hard for the commoditized player to actually participate.

But we're not just thinking about the next generation. We're also thinking about the generation after that. So you might have heard - I mean, you may not have heard - but our guy who runs HP labs is very excited about this dense memory thing called Mem RISC. That is just the beginning--tip of the iceberg. There's a whole new class of computing that can be developed from this sort of Mem RISC or core that he's talking about, okay? So where were we before? A little while ago we were in blades. Tomorrow we're going to be at Moonshot. And then down the pike we're going to be at this new thing. And so we not only have to be thinking of the next thing but the thing after that. And that's what I think is going to allow us to retain our leadership and transform the industry.

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**Rich Kugele** - *Needham and Company, LLC - IT Hardware and Cloud Infrastructure Hardware Analyst*

Then I'll pause and ask if there's any questions from the audience.

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**Unidentified Audience Member**

(Inaudible).

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**Rich Kugele** - *Needham and Company, LLC - IT Hardware and Cloud Infrastructure Hardware Analyst*

You might want to repeat the question.

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**Mohamad Ali** - *Hewlett-Packard - Chief Strategy Officer*

Sure. The question is why did we choose open stack. Does everybody here know what open stack is? Raise your hand if you do. Okay. So open stack is a--it's an open source set of software. So Linux open source is kind of like Linux or Apache or that sort of thing.



And it sits on top of the server, storage, and networking hardware. And that, plus open stack--this is a very sort of simplistic view--allows you to create effectively a cloud. And the open stack software had three big components. It had the component to effectively manage servers, manage networking, manage software, and provide a bunch of services around that. So with that together you have a solution.

We obviously partner across the board. And so, we deliver a lot of VMware-based solutions. We deliver a lot of Microsoft-based solutions. But we actually see increasingly there is strong interest in open stack. And there are significant players that are supporting open stack to the point where we feel now it's--you never want to say the words like inevitable, but it's going to happen. And so, HP, IBM, Rack Space, are just three of the ones that have come out very aggressively behind open stack.

One of the nice things about open stack is that there's a whole ecosystem of clouds that are going to be built with open stack. And to a certain extent, you'll be able to have some level of flexibility and portability across the open stack. Secondly, it creates a very attractive cost structure. When you have the open stack software, you have something like Moonshot underneath, you can build now extremely cost compelling solutions. But we also had to pick a platform that we're going to use for all three instances of cloud that we're going to make available to people. And I don't know if you guys caught the three instances of cloud. But the first one is you have a cloud--a private cloud inside of your bank, right? And that cloud, if it's built a certain way, can talk to public clouds, can what we call burst over to public clouds when you run out of capacity.

So if it's built with an open stack environment from HP--especially if it's from HP, and then you want to--you run out of capacity--let's say you need 10 more servers--well then, you can burst over to the HP public cloud and it looks just the same and the software architecture on top is just the same.

And then, we have services partners, like telcos for example. You guys know telcos are now offering cloud services, or want to offer cloud services to their customers. Well, they're not going to go build the hardware and the software and all the stack. They're going to buy it from an HP, let's say. They buy it, they put it in there. And so, if you are now getting some of your--if you have a private cloud that bursts over to HP's public cloud, or maybe you have HP's public cloud in one geography, but in Switzerland you use the telco partner there who is also deploying a solution based on HP open stack, you could then move back and forth and be as flexible as you want.

So this idea of picking a platform that we can make portable and make cost efficient that has the industry support brought us open stack. Does that help?

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**Unidentified Audience Member**

Yes. No, that's helpful. I'd just be curious just as a follow-up, I mean, do you think Rack Space's move to make that available was really smart, really stupid? (Inaudible).

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**Mohamad Ali - Hewlett-Packard - Chief Strategy Officer**

Well, that's a good question. I don't know about really smart, really stupid. In the standards world, I mean, this is how standards come--happen, right? Somebody decides that it's good for the industry and they put the first piece of IP in. And then, somebody else decides, you know what, that makes sense. We're going to put the next piece of IP in. And then--I mean, and this is how HP has come to it, and we've put a lot of IP in it, and this is how IBM has come to it and put their IP in it. So, yes, we're glad they started it, and then--and we'll build from there.

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**Unidentified Audience Member**

To execute on your strategy, both financially and product-oriented, how do you weigh organic execution versus acquisition? Is there a rough percentage and does that have to be preceded by further improvements in the balance sheet first so that you kind of have like a near term, middle term, long term ability to even change those percentages?



**Mohamad Ali** - *Hewlett-Packard - Chief Strategy Officer*

Yes. I mean, Meg has talked about this because this question comes up a lot. Are you going to do acquisitions and what are they going to look like, and so forth. And I think she's been pretty clear that we will do acquisitions. They will be manageable sized acquisitions and we're going to be financially very responsible about how we do these acquisitions. In terms of rate and pace, you can benchmark this. You guys are analysts and you see what the other companies do relative to acquisitions. You could figure out exactly how much they spend, what percentage of their revenues that is and so forth. And that places a competitive benchmark that other companies, like HP, understand and may or may not choose to approach.

But I think the more important thing is--and when I was at IBM we had--I had kind of this saying that we will not acquire a company unless we know exactly how we're going to create value out of it. And we're going to--that's what we're going to do at HP. So now that the company has been through two years of the five-year journey, we're in a much better place, to point, the balance sheet is good. But more importantly, the operational processes are much better than they were 18 months ago or two years ago. So the business leaders in certain areas would know how to get the value or have the bandwidth to get the value out of these acquisitions. And so, as we start doing this, the important thing is not doing the acquisition itself. It's actually getting the value out of the acquisitions afterwards.

And so, we will do the acquisitions to the level that our organization can absorb and create value. Because I tell you, if we acquire more things than we can create value with, you're not going to get the value out of it, right?

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**Unidentified Audience Member**

(Inaudible).

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**Mohamad Ali** - *Hewlett-Packard - Chief Strategy Officer*

So there are actually a number of questions in what you just asked, right? Let me sort of take them one at a time. So there's a fair amount of internal operational transformation that we've talked about publicly - supply chain transformation, go-to-market transformation, which you were sort of touching on here. We've actually recently launched a new partner program called Partner One. Launching a new partner program for a company of this scale is a huge deal, and we've launched it and it's gone quite well. This is not the kind of thing that you do every year. Maybe you launch a new partner program once a decade or something, right? But we needed to reinvigorate our channel. We needed our channel partners to have the mechanism to transact business faster and have the financial incentives to sell the things that we want them to sell to drive the strategy that we want them to drive. And so, that's sort of the channel partners.

In terms of direct sales, we've actually created something called the Cloud Strike team, which is a cloud sales organization that is now in place that's driving that 1,900-plus customers. That's all relatively recent, right? I mean, 18 months ago we really didn't have a well defined cloud strategy. 18 months later, we have 1,900 customers, we have a Cloud Strike force, and so forth. So you're right. Getting the machine to align to the strategy is important and we've been taking steps accordingly.

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**Unidentified Audience Member**

(Inaudible).

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**Mohamad Ali** - *Hewlett-Packard - Chief Strategy Officer*

Yes. So I think you're right. It's not about after the fact. It's how you deal with it proactively.

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**Unidentified Audience Member**

Right.

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**Mohamad Ali** - *Hewlett-Packard - Chief Strategy Officer*

Right. And so, one of the things that we've been doing--and I don't know how many of you here even know that we have a large security software business. Raise your hand, if you do. Okay, that's a lot more than I thought, right? So we have a sizeable security software business. And that comes from a variety of acquisitions, as well as organic development. The key acquisitions were ArcSight, TippingPoint, and Fortify. And then, obviously, we have security services and so forth wrapped around all of this. But what these products do in some ways is part of the next generation of thinking about security. Security used to be about securing the perimeter. Don't let the bad guys in, okay? And what we found out is that the bad guys are going to get in, right? So you just need to start with the assumption they're going to get in. Because like all these devices that are IP-enabled now are ways of getting in.

Your polycom phone is an IP device and people can get in through that polycom phone. And so, it's just amazing, right? There are smoke detectors that are IP-enabled now. I mean, can you believe people getting through your smoke detector? But that's an IP pass in. And so, one of the things that we've been focused on, especially with the E3 technology, is how do you--first you secure the perimeter, you do as best a job as you can with that. But then, you start looking for odd behavior. And these technologies that we have do that. They look for odd behavior. And when they find the odd behavior, they do something about it.

One of the things that--one of the next steps that we're taking is to leverage some of the new technology I've been talking about--it's software defined networking, for example. One of the applications--I mentioned very quickly application ecosystem. Well, you probably didn't catch what that means. But one of the applications that we've built is something called Sentinel. And Sentinel--now it sits on top of the software defined network. And when Fortify, TippingPoint, ArcSight, and so forth realizes that there's a problem, they have a way of dealing with it. But with Sentinel we have an even more sophisticated way of dealing with it and that is we can actually reroute the networking definition to protect the company, and if you want, to lead the bad guy to a place where maybe you're feeding him false information. There's a whole bunch of things you can do with the bad guy now, now that you sort of have him on the hook, right?

And so, our security technologies and software are in fact looking forward from a proactive perspective. We're heavily--we're looking at this heavily from a technology point of view. We actually have a lab, and I don't remember the exact statistic, but this lab is sort of the number one lab in the world with respect to a certain type of intrusion analysis. And I wish I had the statistics to share with you, but this is an area that we are investing in fairly heavily and it's an area that we've chosen as a strategic area because all of these modern technologies - cloud, big data, mobility - by definition they expose security issues. Because if you think about it, your data is no longer in your premise. It's in the cloud. Your data is no longer on that desktop that's hooked to the chair. It's on your mobile--your iPhone, right? And so, security is a key part. Those are at least some of the things that we're doing.

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**Rich Kugele** - *Needham and Company, LLC - IT Hardware and Cloud Infrastructure Hardware Analyst*

I know there's one--yes.

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**Unidentified Audience Member**

(Inaudible). Is that not something that's even in the foreseeable horizon in your mind? Then I have a follow-up question also.

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**Mohamad Ali** - *Hewlett-Packard - Chief Strategy Officer*

Yes. So this idea of having a 3D printing--printer in your house and everybody's got one and you can print something anytime you want, I think that's probably a little bit further out. And we use the term 3D printing, but we really should be talking about this as maybe 3D model making

because these things are not replacing your 2D printers. Your 2D printers print on paper. There's like--whereas these 3D printers--and you all know this--you're making something. So they may have the same word printing, but they're actually a different category of devices.

Having said that, we actually have a lot of technology around this area. And one of the things that we've been sort of experimenting with--and there was an article about this in our labs--is building a very high end version of this thing that can print fast at scale. And where this goes is sort of interesting because I don't think anybody really knows. But there is one theory that says instead of having the consumers buy these things and put them in a house, that businesses, maybe like a Kinko's, would buy one of these things and put it at the Kinko's. And so, if you have a--you bought a toy for your kid and there's a part that's broken and now you need that part, maybe you go online to the manufacturer, the manufacturer has the 3D specs, we send the 3D specs to this version of Kinko's out there and you go down the street and you pick it up. So that's a potential model.

There could be models in manufacturing for highly custom things, right? So if you want to buy something that's red instead of blue--so it's a mass customization market. So there's a sense that those markets will likely emerge first before the sort of mass consumer market, but it's exciting, right? No--I mean, this is a whole new space. Nobody really knows how it will emerge. But we do see that there is value here down the line, and to your point, maybe there is a short-term value if a large market cap of a spin-out. But that's not how we're thinking about it. We're thinking long term.

And if you look--from a strategy point of view look at our investments, some of them are here and now, instant ink, right? It's there now. Some of them are longer term. Moonshot is sort of near term--is sort of near to medium term in terms of how long it will go for. And then, the longer terms things, maybe 3D printing is a little bit earlier than that--earlier than the next thing I'm going to talk about, which is kind of the (inaudible) based computing. So we do need to have a portfolio of technology innovations, and this is one of those portfolios.

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**Unidentified Audience Member**

(Inaudible).

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**Rich Kugele** - *Needham and Company, LLC - IT Hardware and Cloud Infrastructure Hardware Analyst*

Yes. Do you want to try and--yes, do you want to give like a brief 30-seconds and maybe we'll take it in the hall?

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**Mohamad Ali** - *Hewlett-Packard - Chief Strategy Officer*

Yes. Why don't we do it afterwards, because there are just too many parts to the question to answer real briefly. But I'd love to continue a dialogue.

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**Rich Kugele** - *Needham and Company, LLC - IT Hardware and Cloud Infrastructure Hardware Analyst*

Thank you very much. Very interesting.

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**Mohamad Ali** - *Hewlett-Packard - Chief Strategy Officer*

Great. Thank you.

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