

CONVERSATIONS WITH MIKE MILKEN



Enrique Lores

President and CEO, HP Inc.

January 26, 2021

Mike Milken: HP continues to innovate. It impacts how we work, how we live, how our kids learn, how we interact with hospitals. But before we begin with the company you lead Enrique, how does a person born in Madrid, going to school in Spain, eventually become not only the CEO of one of the historic great companies, HP, but also be part of separating the company into two parts. Tell us a little bit about your journey.

Enrique Lores: First of all, Mike, thank you for having me here. Let me share my story. As you said, I am from Spain. I was in my last year of college when a group of HP engineers came to the school to talk about a program HP had to bring European students to the U.S. And when I listened to how passionate they were about their work to take technology to change people lives, when I saw the passion they have in their eyes, I thought this is a company that I would like to work for. I applied to the program. I got a job as an intern in San Diego during a summer. And this is how I started in the company, and 30 years later I became the CEO of the company. And it is a dream come true. HP has been part of my life for many, many years, and having the ability to lead the company, to reinvent the company, to define where the company will be in the future, I think is the best job I could have ever dream of.

Now when we speak to individuals over the years, they always tell us about a teacher they had that motivated, about a mentor. Were there any mentors at HP along the way?

One of the great things of HP is that there has been always many strong leaders, and I have had the luxury, not of having only one mentor, but having many mentors during my

career; people that were able to give me advice as I had to make decisions; that they had the insight to understand the key things that should be done to do the job right; that were willing to provide that advice. And I tell this always to my team that we need to constantly learn not only from our leaders, but from everybody around us. And this has been one of the key drivers of my development in my career. Look always for the opportunity to learn from people, whether people I was working for, working with, people that were working for me, there is always an opportunity of learning from someone. And if you continue to learn is one of the best recipes to continue to make progress in your career and in your life.

You became the CEO in November of 2019. You have more than 50,000 employees in more than a hundred locations. How did the company respond to COVID in ensuring employee safety and maintaining and improving productivity. Take us back to those decisions you made early in 2020, a year ago.

Our first goal was to make sure that all of our employees were safe and stayed healthy. And we decided very early in the process to send everybody to work from home. We closed all the offices to make sure that everybody really was able to stay safe. If you had asked me nine months ago, whether we were going to be able to manage the company with everybody working from home, I would probably have said, no. But it worked. I think we all have learned the things that a few months ago we thought were not possible, were really possible.

After that first phase, we really went to see how could we help and have an impact in the different communities where we were. For example, we took working with our partners in 3D printing – we created almost five million of parts of products that were needed in hospitals; respirators parts for masks that in the very early weeks of the pandemic were not available in many countries in Italy, in Spain, where the pandemic was hitting in the hardest way. We collaborated and helped with them.

We also made a big effort to stay connected both with our employees, but also with our customers and partners; make sure they understood what the situation of the company was and what the direction was. And as the situation stabilized, then we look for opportunities to really transform our business and understand how should we be evolving our portfolio of products or services, and what new opportunities was the pandemic offering from us. Because I was talking before that we have seen that it's possible to manage the company working from home.

“If you think about a spine operation, today when the doctors have to go through that surgery, they need to have many multiple parts because they don't know exactly what part will fit in your back. With 3D printing, you can measure the back of the patient before and print the specific part.”

We believe that going forward we will work in a more hybrid way where some work will be happening in the office, some work will happen at home. This is an opportunity for us to redesign our portfolio of PCs or of printers. We also have seen how important some elements in the healthcare space or how unprepared we were to respond to these type of situations. And with the technology that we have in microfluidics, we can really make sure that the next time a pandemic like this happens, we are more ready to respond to that. So that's an opportunity that we are driving with our microfluidics in the healthcare space.

“As I think about manufacturing, I think about two big changes. First is the creation of more decentralized manufacturing networks, where companies will be able to produce closer and to manufacturer closer to where their customers will be. The second big change will be driven by personalization.”

We have also seen how important it is to have a more decentralized manufacturing footprint. We all suffer from the fact that we had manufacturing concentrated in a few countries, and we have realized that we need to have a more distributed network of factories. And we have our ability in 3D printing. This is an opportunity that is not only important for us, but important for many of our customers. So we really are looking and have looked for ways to leverage the changes that the pandemic has started and transform them in business opportunities going forward.

When you think of innovation and entrepreneurship, it's hard not to think of HP, and whether it was Bill Hewlett or David Packard when they started the company in a garage 50 years before you joined, they were constantly noted for innovation. But one of the major trends that we see occurring in the next decade or so is manufacturing and the concept of a 3D printer. As you think about the future of 3D printing, whether it be biological or whether it be non-biological, what does HP look like in this area a decade from now?

I think we are going to see a tremendous transformation in the manufacturing space in the next years. And this will be driven by many technologies, starting from data and the ability to manage data, but also by 3D printing and the ability to create and to manufacture products locally and design them and build them in a personalized way. So, as I think about manufacturing, I think about two big changes. First is the creation of more decentralized manufacturing networks, where companies will be able to produce closer and to manufacturer closer to where their customers will be. The second big change will be driven by personalization. With the ability to capture data from individuals, we will be able to produce and design products specifically built for a single person.

So think about in the future, when you will be choosing your shoe, you will not have to go to the standard sizes that are available today. Whoever will be selling the shoe to you will have your dimensions of your foot, so it will be a shoe that will have been built specifically for you, or a pair of glasses or any other thing that you will be buying. And

this ability to manufacture something that will have been designed and built for you is something that in the past was not possible, but will be possible in the coming years.

When you think of the challenge to print parts, whether they're for a ventilator or for mask, would you envision that HP would have printers in hospitals, medical facilities in the future, so if they needed something five to 10 years from now, they would just print it or manufacture it there. Is that the future you envision?

The future is going to be hybrid. In some cases, there will be printers in hospitals, but also these capabilities will be offered as a service and companies like us or others will have a network of factories that will be producing on behalf of our potential customers. And this hybrid model is what we think is going to happen in the future, because in some cases it will make sense to have a printer locally owned by a hospital. In other cases, it will be just easier to have a service agreement with a local part producer that we'll be serving and we'll be printing these parts for the hospitals.

When I think about the automobile, the manufacturing was in just a few countries. Today more than 80 to 90 countries around the world manufacture

automobiles. Do you envision that manufacturing becomes smaller and more efficient due to these devices that will be created with 3D printing and other technologies?

“When real innovation happens is when you are able to merge these two things; technology with needs that our customers still don't know they have. And when this combination happens is when magic happens.”

The impact is going to be different in different verticals. If we think about the healthcare space where the need for personalization is higher, this is where we think that the transformation will have the biggest impact. If you think about, for example, a spine operation, today when the doctors have to go through that surgery, they need to have many multiple parts because they don't know exactly what will be the part that will fit in your back. With 3D printing, you can measure the back of the patient before and print the specific part for this customer. So that industry will go from producing multiple parts to just producing one for the patient that will be going through the surgery. That industry will have a major, much bigger impact than a high-volume industry like manufacturing where many parts can be identical. And therefore the advantages of 3D printing will be smaller because when 3D printing will really succeed is when there will be this combination of personalization and the need to produce the part locally.

I know one of the areas that you have been focused on is responsibilities or relationships both to your employees and business, your shareholders, and the various stakeholders around the world that interact with HP. What is your view of balancing these issues of profit, social responsibility, the different stakeholders as you see it today?

We talked today about stakeholder capitalism. Before this concept was invented, really Bill and Dave were already exercising it. And this is one of the core values that HP as a company has had from the beginning. We strongly believe that for our company to be successful, it is not only about delivering profit for our shareholders. We also need to balance that with having a positive impact for the rest of the stakeholders, whether they're our employees, whether our customers or whether the societies and the communities that we work for. And I think about the HP of the future, these will have to be, and this will be a very important part of our culture and our strategy going forward.

“We are a hardware company, but for hardware companies to succeed and lead in the future, we need to have a very strong software capability. Knowing how to manage data, capture data, and analyze data will be fundamental going forward.”

We will continue to grow by delivering great products and services, but we will also look for having a positive impact in the communities that we serve.

The company will continue to be a lighthouse for sustainability and diversity. And these will be important as well because as I think about what will be relevant for our customers in the future, they will buy products not only because the products will be great, they will do that because the brand

that will be supporting that and selling them will represent the values that our customers will have. And this is why this is going to be so important for us; is not only because of the impact it will have on the world, also the impact it will have in the business.

Prior to you becoming the CEO, about 33% of all the assets incorporated ESG factors at HP. This year, you will have increased that to 50%, and I noticed you have a goal that in a decade 95% of all assets would be in this area. How does HP balance sustainability and revenue generation?

What is important for us is to integrate the sustainability goals as part of our business goals because we think it's not anymore about choosing profitability versus sustainability. We believe we can drive both. And for example, just last year, we estimate that more than \$1.5 billion of our business was really driven by sustainability goals, by companies demanding and requesting that we were meeting specific goals on environmental impact or on diversity. When we look at the future, we have defined goals in three specific areas. We have goals around people, supporting human rights. We have goals around the planet, to fight climate change. And we have goals around communities, to support diversity. And this is how the company is designing its goals. And again, we think that by driving those goals it will have a positive impact on our business, because this is what our consumers and our customers will drive for. This will be a critical element of choosing HP as their preferred brand versus other brands.

We have had this initiative in the last five years of ‘Healthy Human, Healthy Planet,’ and by bringing together a movement related to nutrition and the microbiome with the

movements related to global climate change and other issues that we have been confronting. How have your own employees reacted to this effort?

The reaction from employees is extremely positive because when someone comes to work every day, they are not only motivated by the work that they will be doing, they are also motivated by the impact the company will have in their communities. And being able to see that the company cares about the impact it will have through different programs impacting the people all over the world, is really motivating to our employees.

We also see in a similar way to what we were talking about, manufacturing, that we have our products, and we are going to be having a direct impact in the healthcare space, because in a similar way to what we were discussing before about democratizing manufacturing, we think that we have an opportunity as well, to democratize many areas in the healthcare space. And this is what we will be driving with our microfluidics technologies, because what HP has is the ability to manage fluids at micro scale. And the same way the processors today manage data, we are building microprocessors for fluids and with them, we will be able to do diagnostics and measure and identify potential diseases. We will also be able to create personalized medicine. So if you are going through a difficult treatment, we will be able to create a specific medicine designed only for you, and that medicine will be built in your home, at your home. So that ability and option to drive the democratization of the healthcare space is one of the most inspiring efforts that we have in the company. Not only because of the business, it will create, but also because of the impact it will have in the world.

“What is important for us is to integrate the sustainability goals as part of our business goals because we think it's not anymore about choosing profitability versus sustainability. We believe we can drive both.”

We were part of a group that former Governor Jerry Brown in California created to focus on what was called personalized medicine. And we had 18 to 24 months to make a report. We changed the name of our group twice before we produced the report. We started out personalized medicine. Then we went to precision medicine, and eventually went to precision health so we could focus on prevention, not just treating the issue. HP has always been known for the investment in R&D. Obviously healthcare is one you've touched on. Where is HP under your leadership putting its R&D dollars? Where are you investing in this transformation? And those that might want to apply for this internship that brought you to the United States 31 years ago, what is the background you're looking for in employees and the skill sets when you make a decision to look for a person to join HP?

Sure. In terms of where are we investing, we're investing in those areas where we think we will be able to have impact in how people work. And we were talking before about the change in how we work and how we collaborate, we are redesigning our portfolio of printers and PCs to make hybrid models possible for people to be able to work from home and from the office in a secure way. Security has become and will become a big issue, especially in these hybrid models. And this is a big area where, for us, it's really important to drive that. We also see a big trend in our customers moving to

“Imagine in the future that we will not only be able to create a hip if your hip needs to be replaced. That hip will have electronics built into it. So when you will have your hip replaced, that hip will be sending information outside your body of how you are using that hip and will help you to work better and to recover faster.”

subscriptions. Customers don't want any more to buy just a printer. What they want is to have access to the ability of printing, and we are driving a big change in our business to evolve it to as a business model.

We are also investing in creating new experiences. When you have a PC, it's not only about the screen or the PC itself. It is about the sound it generates. It's about the camera is about having the camera follow you in the room. It's about if there is a dog barking in your room and you are in a video conference, you want to remove

that sound. You want to have AI in the monitor that will be filtering that. All these is investing in experiences that will be able to create that.

And we're also investing in new technologies that will be disrupting industries. We were talking before about 3D printing and the ability to create personalized products. Imagine in the future that we will not only be able to create a hip if your hip needs to be replaced. That hip will have electronics built into it. So when you will have your hip replaced, that hip will be sending information outside your body of how you are using that hip and will help you to work better and to recover faster. We are investing in microfluidics to transform the health industry. We see opportunities in the diagnostic space. All these are opportunities that in the future will open great businesses for us going forward.

So when I think about what type of employees we are looking for, we need to hire people that will be able to make all these visions real, that will understand technology, that will understand where technology is going, but that will also understand where customers will be going in the future. What are the needs that our customers have before our customers know about them? Because when real innovation happens is when you are able to merge these two things; technology with needs that our customers still don't know they have. And when this combination happens is when magic happens. And this has been for many years, the magic of HP, and will continue to be in the future.

When I go back, let's say three decades to one of our Scientific Retreats. We primarily had people that were MDs, doctors or had PhDs in molecular biology. Today, when we have our Scientific Retreat, we've got biologists, physicists, computer scientists, chemists, ethicists in the room, and so the background and education has changed dramatically.

What I think is going to happen, if you think about what technology has done in the last 30 years, we have basically transformed how information is managed, how information is stored, how information is shared; it has been a transformation of the information industry, of the data industry. Going forward, that same transformation is going to happen in the rest of physical industries. We are going to be changing the manufacturing industry. We're going to be changing the healthcare industry, where it's not only about managing data, it's about integrating the digital and the physical world.

If you think about what we do today with our PCs, we create information in the digital space. With our printers, we take digital information and transformed it into physical products. Going forward these same two principles will be applied to many other industries. When we talk about 3D manufacturing, it's in essence, the same process we used to do for printing a digital file transformed into a physical product. When we talk about diagnostics is again about the same; it's a digital concept transform into a physical process. This is where HP will have the opportunity to continue to lead and to thrive in the future.

“We have defined goals in three specific areas. We have goals around people, supporting human rights. We have goals around the planet, to fight climate change. And we have goals around communities, to support diversity.”

A number of years ago, Warner produced three movies called The Matrix. You have the programs; software; you have the machines, hardware; and then you had the humans. And when you were watching this trilogy, the programs were the most powerful – software. And eventually the machines and the humans team up to go to try to defeat the software. As you look at the company today, you talk a great deal about the physical and the digital. The transformation of this integration obviously is going to require substantial increases in software. Talk to us a little bit about how you manage that transformation.

We think that both hardware and software are going to be critical for the company going forward. In fact, today we already have more software engineers than hardware engineers. We are a hardware company, but for hardware companies to succeed and lead in the future, we need to have a very strong software capability. Knowing how to manage data, capture data, and analyze data will be fundamental going forward, not only for software companies, but also for hardware companies. As you were talking about *The Matrix* and the implications it has, another important part of what we want the company to be in the future is to continue to be a purpose-driven company. It is not only about

the products we generate. It's about the values that we will have supporting and driving those products in the future, because going forward, we all are going to face a lot of ethical debates. As we continue to drive innovation and to create new possibilities, and having a very strong value-driven company, we think it's really going to be critical for us to have a positive impact in the world.

What are the software programs that are being written? What is their purpose? How do they empower people? You've talked today in many ways about education, work, products, healthcare that surrounds people's lives both at work and at home. We have

“We created almost five million of parts of products that were needed in hospitals; respirators parts for masks that in the very early weeks of the pandemic were not available in many countries in Italy, in Spain, where the pandemic was hitting in the hardest way.

seen unfortunately on the other hand from a societal standpoint that some of the programs that went on for 3D printers were how to print a gun. How do you decide where to put your efforts here because obviously there's a lot of things you could write software for. How do you set that tone?

One of the goals that the company has is to create technology for everyone everywhere to make lives of people better. This statement, which sounds very high level, is really useful when we need to make the type

of decisions you were describing because it helps to differentiate what is a good idea versus a bad idea and helps us also to define what are the boundaries that we have with our technologies.

A similar example of what you were talking about, being able to print guns with 3D printing, is something that we have been managing for a long time with our printers, which is the ability or not of printing money because the quality of our printer is so high that they could be used by bad guys to print fake money. So we have developed a lot of algorithms and technologies in our printers to prevent that from happening. And if you take U.S. dollar bill today, and you try to do a copy, you will see that the printer recognizes that and makes that not possible. Similar technologies will be built in our 3D printers to prevent other products from being built. And again, this is where technology will help because we've AI and ML [machine learning], we will be able to identify many of these technologies, many of these products, preventing them from being printed.

Fascinating, Enrique. One of the things that I'd like to our listeners to hear from you is, you had a wrenching and difficult decision back in 2014-2015. A company at that time that was 55 years old from its founding, you had to make a decision that to grow it would be better to divide the company in two parts. How did you decide which of the parts went to one company, what should the parts go to the other? The company you lead has the stock symbol, HPQ; the other company has HPE. So it still could be

confusing. The company you lead has a market cap of more than twice the size of the other. What was going to stay in HPQ? What was going to go to HPE? How did you separate and how did you separate the people that work for these divisions?

We strongly believed that by having smaller and more focused companies, the ability to grow was going to be better. We thought that once a company was above a certain scale, really scale was not helping in driving more growth. But focus could. And this is really something that we have seen in the case of HPQ has been incredibly important, because this focus has allowed us to invest more in the technologies and in the categories that we are driving. The way the company was split was in fairly simple. HPQ is building products that are used directly from end-users, and whether they are printers or PCs, this was kind of the driver. HPE was focused on products for the data center, whether they were servers, network products or storage; these really were all products designed for the data center. And this is how the company was separated.

If we look at the progress we have made, and the ability we have had not only to continue to lead in printers and PCs, but to evolve into a service model and to create new categories in 3D printing or starting in microfluidics, we really think this was the right decision and we're in the right path to continue to grow and to evolve the company going forward.

“The future is going to be hybrid. In some cases, there will be printers in hospitals, but also these capabilities will be offered as a service and companies like us or others will have a network of factories that will be producing on behalf of our potential customers.”

How has the pandemic changed your view of the relationship between you and your customers, the relationship between you and society, the relationship in education and other things that are your core values?

I think the pandemic has really made the need to be closer to our employees, to our customers and to our societies, even more important than what it was before. We all have learned how important it is to show empathy, to understand what our employees are going through, what our customers are going through, and look for ways to help them to go through very difficult situations that many people have faced. And when we combine that with all the situations of social unrest that we have seen, especially in the U.S., and what we all have learned, many of our colleagues because of being of a different race have been going through, have really made all those needs even more important. And as I think about the company going forward, this is why becoming a lighthouse for sustainability and diversity is one of our key goals, because we all have learned that the life that we have had is different from the lives that many of our colleagues are having. And this is something that collectively we are working to change

and to make sure that we offer a better experience for the rest of our colleagues. This is really what makes HP a special place and what will continue to make a special place.

Enrique, I want to thank you for joining us and giving us the company's vision of the future, and we look forward to seeing not only what you can accomplish in the next year, but in the next 10 years. All the best.

Thank you, Mike.
