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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Third Quarter 2024 HP, Inc. Earnings Conference Call. My name is Desiree, and I'll be your conference moderator for today's call. At this time, all participants will be in listen-only mode. We will be facilitating a question-and-answer session towards the end of the conference. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the call over to Orit Keinan-Nahon, Head of Investor Relations. Please go ahead.

Orit Keinan-Nahon

Senior Vice President-Finance & Head-Investor Relations, HP, Inc.

Good afternoon, everyone, and welcome to HP's third quarter 2024 earnings conference call. With me today are Enrique Lores, HP's President and Chief Executive Officer; Karen Parkhill, HP's Chief Financial Officer; and Tim Brown, who is the Interim Chief Financial Officer.

Before handing the call over to Enrique, let me remind you that this call is a webcast, and a replay will be available on our website shortly after the call for approximately one year. We posted earnings release and accompanying slide presentation on our Investor Relations web page at investor.hp.com.

As always, elements of this presentation are forward-looking and are based on our best view of the world and our businesses as we see them today. For more detailed information, please see disclaimers in the earnings materials relating to forward-looking statements that involve risks, uncertainties and assumptions. For a discussion of some these risks, uncertainties and assumptions, please refer to HP's SEC reports, including our

most recent Form 10-K. HP assumes no obligation and does not intend to update any such forward-looking statements. We also note that the financial information discussed on this call reflects estimates based on information available now and could differ materially from the amounts ultimately reported in HP's SEC filings.

During this webcast, unless otherwise specifically noted, all comparisons are year-over-year comparisons with the corresponding year ago period. In addition, unless otherwise noted, references to HP channel inventory refer to Tier 1 channel inventory. For financial information that has been expressed on a non-GAAP basis, we've included reconciliations to the comparable GAAP information. Please refer to the tables and slide presentation accompanying today's earnings release for those reconciliations.

With that, I'd now like to turn the call over to Enrique.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

Thank you, Orit, and thank you all for joining today's call. Let me start by welcoming our new CFO, Karen Parkhill, who joined HP earlier this month. Her expertise and background are a great addition to our leadership team, and we are delighted to have her on board. And a big thank you to Tim Brown, for stepping in as Interim CFO over the last three quarters.

Today, I will cover our third quarter results, a few of the new innovative experiences we have introduced, how we are tracking against our strategic priorities, and our expectations for Q4. Karen will provide additional details on our financials and outlook.

Starting with our results, let me first focus on revenue. I am pleased to share we are building solid momentum. The company returned to revenue growth for the first time in nine quarters, up 2% year-over-year. This was driven by strong performance in Personal Systems and our key growth areas. Commercial PC recovery was strong, in line with our expectations, and a signal of ongoing market stabilization. That said, the recovery of the Print market was slower than expected, which impacted Print revenue.

Non-GAAP operating profit was down 7% and non-GAAP EPS was within our previously provided outlook range, but below our expectations. We have been taking decisive actions to address this. We see an immediate opportunity to drive additional structural cost savings in Q4 as part of our Future Ready program. We're accelerating our plan, raising our exit goal for fiscal year 2024. We expect to reach 80% of the three-year structural cost run rate target by the end of this year.

We will also keep executing our plan to strengthen momentum and drive long-term profitable growth. This includes investments in support of our growth businesses. And these combined efforts will help us win in the market, drive profitable growth and build a stronger HP.

Turning to new innovations, Q3 was another strong quarter. We continue to deliver industry-leading experiences by putting our customers at the center of everything we do. In the AI PC category, we are charging ahead. Our next-gen AI PCs are empowering everyone from knowledge workers to data scientists to unlock the power of AI. In May, we launched our first generation using the latest Qualcomm processor as the world's thinnest next-gen AI PC with the longest battery life, they are made for mobility. And in July, we introduced a new premium model powered by the latest AMD processor. It is the most powerful AI PC in the industry with up to 55 TOPS of NPU performance.

It delivers personalized experiences like real-time translation, personal communication coaching and quick professional video creation. And to help protect against AI-assisted cyberattacks, the new OmniBook Ultra includes the industry-leading protections and capabilities of HP Wolf Security.

We are doing even more to raise the bar for data scientist and AI developers. Our HP AI Studio is the world's most comprehensive workstation solution for AI development. In Q3, we made it even stronger by being the first and only to build Gen AI trust into our solution. This means developers can more effectively detect, correct and monitor inaccurate output from AI models, making it faster and safer for companies to deploy AI-powered applications.

In Workforce Solutions, our proprietary Workforce Experience Platform is exceeding our expectations. Customers are now leveraging our AI capabilities to manage over 250,000 devices, and growing. We also recently added several managed devices wins and deployments, including larger companies like Eaton. Our continued partnership with this global intelligent power management company will help support their IT journey in serving more than 90,000 employees around the world.

We set a new standard for industrial printing at Drupa, introducing advanced digital process and intelligent automation solutions. This included autonomous mobile robots that save up to 2 hours of production a day per press. We also enhanced our PrintOS platform, giving customers the ability to monitor their entire production floor from jobs mission to delivery. We were honored to take home more best of awards than any other exhibitor at the show. We also announced a new partnership with Canva, where 185 million monthly users can now similarly design and create online and print locally.

We also secured major deals with print and digital industry leaders like R.R. Donnelley, All4Labels, and Cimpress. We are excited about what's ahead. In September, we will host our second annual HP Imagine event. Here, we will unveil even more new experiences that help our customers drive growth and professional fulfillment. In Q3, we further invested in our long-term success. We acquired CyberCore Technologies, a leading provider of secure supply chain management and cyber solutions for the US Federal government. The addition of CyberCore to the HP family will help further strengthen our security expertise and enhance our offerings.

And just yesterday, we announced we have received a \$50 million award from the U.S. Department of Commerce. This funding from the CHIPS and Science Act will help modernize and expand our microfluidics semiconductor fab in Corvallis, Oregon. It will also help us further explore the potential of our microfluidics technology in new areas such as life sciences.

In Q3, we released our annual Sustainable Impact Report, highlighting the important progress we have made. In 2023, our initiatives help us reach a 27% reduction in value chain greenhouse gas emissions. We continue to roll out easily recyclable packaging created from recycled content. In 2023, we reached a 62% reduction in single-use plastic packaging. And our digital equity efforts have reached 45 million people since 2021.

We know there is always more that can be done, but we are proud of our progress. And we are honored to be ranked first in our industry on TIME Magazine's World's Most Sustainable Companies list. Now, let me share more details on the performance of each our businesses in the third quarter.

In Personal Systems, revenue was up 5% year-over-year, the second consecutive quarter of year-over-year growth. Operating profit was 6.4%, in line with expectations. Globally, our PC share was flat year-over-year, but up 1.3 points quarter-over-quarter. This was driven by growth in high-value categories, including workstations and consumer premium.

We continue to see strong progress in key growth areas, with revenue up year-over-year in Personal Systems services and in Hybrid Systems, driven by strong demand for video collaboration. And we grew gaming revenue quarter-over-quarter, in line with normal seasonality.

We remain very excited about the AI PC's opportunity. Shipments are ramping and initial reactions overwhelmingly positive. We have a strong portfolio with an unprecedented level of HP engineering. Our growing ecosystem of developers and AI software providers are a huge competitive advantage. Forbes declared HP won the AI PC crown, and they are right. Our focus is on delivering new AI experiences for our customers. Overall, our AI PC expectations across shipments, higher ASPs and premium mix remains on track with our expectations for the second half.

Shifting to Print, net revenue was down 3% year-over-year. We delivered Print operating profit of 17.3%, which was below our expectations. We saw a softer demand, unfavorable geo mix, and a more aggressive pricing environment. Even in this type of challenging environment, I expect us to do better. And as I said earlier, we are taking actions to accelerate our structural cost savings for this year.

We have made progress on gaining profitable share with growth year-over-year and quarter-over-quarter in home and in office, when excluding China. We gained share in our strategic areas especially in Big Tanks, A3 and A4 value.

Key growth areas in Print continue to make progress. Consumer services revenue and subscribers grew year-over-year. Industrial graphics did as well. And we have strong momentum coming out of Drupa. And supplies continue to perform as expected.

Overall, we generated strong free cash flow of \$1.3 billion in the quarter and return \$29 billion to shareholders. We remain committed to our capital allocation strategy. Our board of directors have just increased the total share repurchase authorization to \$10 billion. This reaffirms our commitment to deliver strong and sustained capital return to our shareholders.

Looking forward to Q4, we expect the demand environment will remain dynamic and that our markets will continue to be competitive. We expect the PC commercial momentum to continue and our key growth areas to make progress. At the same time, the competitive pricing environment will remain in Q4 and the Print market recovery will continue to be slower. As a result, we decided to moderate our expectations for Q4 and the full year.

We will maintain investments and progress in high value and key growth areas, and accelerate our cost reduction plans. We are confident in our strategy and well equipped to drive meaningful progress as we round out fiscal year 2024. Across our entire portfolio, leveraging AI and enabling hybrid work experiences will remain central to creating solutions that deliver growth and fulfillment for all HP customers.

I will pause here and turn it over to Karen.

Karen L. Parkhill

Chief Financial Officer, HP, Inc.

Thank you, Enrique, for the warm welcome. I'm thrilled to join HP, and I'm eager to meet you, our analysts and investors in the months ahead. Though I've been here just a few weeks, I'm incredibly impressed by the innovation all around me. HP is an iconic company, and I'm excited to work with Enrique and our leadership team

to create an even stronger future ahead. Building upon our market-leading portfolio, attractive growth businesses, and culture keenly focused on delivering value for our shareholders.

Now on to the quarter. Starting high level, we are building on the progress we made in the first half, and as Enrique said, are pleased with our return to revenue growth for the first time in nine quarters. Solid performance in Personal Systems, which grew for the second quarter in a row and in our key growth areas drove our Q3 revenue growth. And double-digit sequential growth in Personal Systems drove strong free cash flow in the quarter. We also returned nearly \$870 million to our shareholders through repurchases and dividends and remain focused on returning approximately 100% of our free cash flow this fiscal year.

Looking across the company, the print market was softer than we expected at the beginning of the quarter. And both Print and PS saw dynamic pricing environment that put some pressure on our margins, as did our focus on continuing to invest for long-term sustainable growth. As a result, and as Enrique mentioned, we are accelerating our Future Ready Plan and intend to deliver savings sooner than expected.

As a reminder, our plan incorporated our goal to deliver gross annualized structural cost savings of \$1.6 billion by the end of fiscal year 2025 with approximately 70% or \$1.1 billion achieved by the time we exit the fiscal year.

Given our focus to mitigate near-term market challenges and just as importantly, maintain investments to drive longer-term growth, we have accelerated our efforts and now expect our cumulative savings target exiting the fiscal year to be approximately \$1.3 billion or 80% of the planned target.

Now, let's take a closer look at the details of the quarter. Net revenue was up 2% nominally and up 3% in constant currency. In constant currency, revenue increased in all regions with Americas, EMEA and APJ each growing 3%. Gross margin at 21.5% in the quarter was up slightly year-over-year. Our cost-saving efforts offset both competitive pricing in the face of rising commodity costs and a mix shift given the strong PS performance.

Non-GAAP operating expenses were up year-over-year from continued investment in key initiatives and our people. And of course, we continue to drive cost reductions, including the Future Ready cost savings. All in, non-GAAP operating profit was \$1.1 billion, down 7% year-over-year.

Below the op profit line, non-GAAP net OI&E was down year-over-year, benefiting from less short-term financing activity and lower interest expense from the debt tender we completed last year. Finally, with a diluted share count of roughly 1 billion shares, our non-GAAP diluted net earnings per share was \$0.83, a year-over-year decrease of \$0.03, and GAAP diluted net earnings per share was \$0.65.

Now, let's turn to segment performance. Personal Systems revenue was up 5%, both nominally and in constant currency, with higher commercial volumes and increased ASPs as we worked to adjust pricing where possible to mitigate increased commodity costs. Total units were up 1% year-over-year with strength in commercial. And sequentially, revenue was up 11% and units were up 14% with seasonal strength and overall share gains. Of note, fiber systems revenue grew in the double digits year-over-year, including strong growth in video collaboration.

Drilling more into the details, Consumer revenue was down 1% with units down 6% and commercial revenue was up 8% on 6% unit growth. Improved pricing in consumer, along with favorable commercial mix and a shift to premium, consistent with our strategy, drove higher overall ASPs. In fact, we continue to see commercial representing greater than 70% of Personal Systems revenue. And while calendar Q2 market share was flat year-

over-year, we gained share sequentially, driving improvements in high-value categories. And of course, we remain focused on driving profitable revenue and share growth in both our consumer and commercial markets.

Personal Systems operating margin of 6.4% was down slightly year-over-year. We had higher commodity costs and purposely continued our strategic investment, offset in part by Future Ready savings. In Print, our results reflected the slower pace of market recovery and an incrementally aggressive pricing environment as our Japanese competitors continued to benefit from the weaker yen.

Overall, the market came in below expectations, particularly in China. Total print revenue was down 3% on a reported basis and 2% in constant currency. And while hardware units declined 2% year-over-year, total print market share increased both year-over-year and sequentially. And momentum in industrial graphics continued with supplies and services driving the fourth straight quarter of year-over-year revenue growth.

By Customer segment, Commercial revenue decreased 5% with units down 4%. And as mentioned, we felt the impact of market declines, most notably in China and competitive pricing. Consumer revenue returned to growth, increasing 2% on flat units with favorable mix offsetting pricing. Of note, hardware units grew 5% sequentially, driven by strength in consumer. And supplies revenue was down 2% nominally and 1% in constant currency, in line with our outlook. Print operating margin of 17.3% was down year-over-year, with headwinds from pricing and increased investments, not fully offset by savings from our Future Ready actions.

On our Future Ready Transformation Plan, we continue to drive greater effectiveness and efficiency across the company. For example, we're using generative AI capabilities to reduce customer call times in Workforce Solutions. And in our commercial organization, our move to more end-to-end processes is enabling much faster deal quotes for contractual customers and allowing customers to more easily buy and renew on hp.com. There is more to come as we accelerate and complete this program, particularly in Print, where we are driving further reductions across the core, including business consolidation, supply chain optimization, and reductions in platforms.

Now, let me move to cash flow and capital allocation. We generated more than \$1.4 billion in cash from operations and \$1.3 billion in free cash flow. We continue to improve our cash conversion cycle this quarter, driving inventory days down with seasonally higher volumes in Personal Systems, offset in part by an increase in strategic buys as we focused on reducing the near-term impact of rising commodity costs.

Lastly, we returned close to \$870 million to shareholders through both share repurchase and dividends, and finished the quarter within our target leverage range. Just as a reminder, unless higher ROI opportunities arise and as long as our gross leverage ratio remained below two times, we expect to return approximately 100% of our free cash flow to our shareholders overtime.

Looking forward to the fourth quarter and our fiscal year-end, we will continue to navigate a dynamic environment. And have, therefore, modeled multiple scenarios based on several assumptions. In Personal Systems, we expect Q4 revenue to increase sequentially low-to-mid-single digits. We are expecting continued strength in commercial. But given the lingering softness in the consumer market, we are expecting less seasonal growth than we have seen historically. We anticipate Personal Systems operating margin to remain in the upper half of our long-term target range of 5% to 7% in Q4, as we were offset increased commodity costs through pricing and disciplined cost management, while continuing to invest in strategic priorities.

In Print, we see improving trends in the market, but the pace of recovery is slower than we expected with continued competitive pricing pressure. For Q4, we expect Print revenue to increase low to mid-single digits

sequentially, driven by typical seasonal strength as well as strong momentum in our industrial business coming out of Drupa.

We expect supplies revenue in FY 2024 to decline low single digits, and we anticipate Q4 Print margins to be near the top of our 16% to 19% range, given seasonal strength and acceleration of Future Ready cost savings.

Taking all of these considerations into account, we are moderating our guide for Q4 and fiscal year 2024, and we are narrowing our non-GAAP EPS outlook range to \$0.10, which is reflected in our updated outlook. We expect fourth quarter non-GAAP diluted net earnings per share to be in the range of \$0.89 to \$0.99. And fourth quarter GAAP diluted net earnings per share to be in the range of \$0.74 to \$0.84. For the full year, we now expect non-GAAP diluted net earnings per share to be in the range of \$3.35 to \$3.45. And FY 2024 GAAP diluted net earnings per share to be in the range of \$2.62 to \$2.72.

Lastly, we continue to expect free cash flow to be in the range of \$3.1 billion to \$3.6 billion for FY 2024. As a reminder, our free cash flow outlook includes approximately \$300 million of restructuring cash outflows.

At this point, we want to open the lines for your questions. But before we do, I want to express my gratitude to my HP colleagues for their help in making my onboarding as smooth as possible. And in particular, I want to thank Tim Brown for his leadership in the interim and his continued help these past few weeks with me. Tim is also on the call with Enrique and me to help answer your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first questioner today will be David Vogt with UBS. Your line is open.

Andrew Spinola

Analyst, UBS Securities LLC

Q

Yes. Hi. This is Andrew for David. I wanted to ask about the Print margins in fiscal 2024. Can you disaggregate some of the pressure you saw in this quarter? What were the primary drivers? What were the bigger drivers? And why do you expect that to reverse next quarter? Is it entirely on the cost cuts from the Future Ready plan or are there other drivers that you're expecting to improve margins in Q4? Thanks.

Karen L. Parkhill

Chief Financial Officer, HP, Inc.

A

Thanks for your question, Andrew. Our Q3 print margin was below our expectations, although I would note that supplies did come in as expected in the quarter. So, our margin was impacted by more aggressive pricing as we talked about as well as the challenging market environment, particularly in China. And that was driving unfavorable geographic mix. And against that environment, we took the opportunity to place hardware units that are profitable long term, but dilutive to the current overall margin rates. And despite the headwinds, we also maintained our investment in the key growth areas that are going to generate long-term value.

And then as we look ahead to Q4, we expect to be seasonally stronger on revenue. We're also as we talked about taking more aggressive actions to drive that margin improvement. We said we're accelerating our Future Ready Plan. We're driving further reduction across the core that includes business consolidation, reduction in

platforms and supply chain optimization. And with all of this taken together, we're confident in our ability to deliver the print margins near the top end of our 16% to 19% target range.

Andrew Spinola

Analyst, UBS Securities LLC



Thanks.

Operator: Our next question comes from the line of Samik Chatterjee with JPMorgan. Your line is open.

Samik Chatterjee

Analyst, JPMorgan Securities LLC



Hi. Thanks for taking my question. And I have a couple, if I can just start with maybe AI PCs, which you referred to in terms of the momentum you're seeing with customers and the launches that you've done. If you can share how you're seeing that flow through when you look at the segments between consumer PS and commercial, what are you seeing in terms of activity there? Where do you expect it will make a more material impact in the coming quarters? And how do you sort of see that feeding into maybe a bit of the recovery on the consumer PS side as well? Any thoughts on that would be appreciated. And then, I have a follow-up. Thank you.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.



Sure. Thank you. Let me take that question. So first of all, when we talk about consumer in AI PCs, if we use the IDC description, we had said that we expected sales to be around 10% during the second half, and we think we're going to be slightly above that number. So they are performing well. Where we really are also focused in what we call next-generation AI PC that we have just started to launch. We announced our first product with Qualcomm and with AMD only a few weeks ago, and shipments are beginning now. So we haven't seen a significant impact from those yet. The reaction has been positive. The experiences that we're able to generate are very compelling. We had an event with many of our software providers a few weeks ago in New York when we were able to display that. So the reaction is positive, but the impact on our result has been very, very small yet.

In terms of adoption, we think that in the very short term, adoption in consumer will be faster because adoption in commercial is always limited by the evaluation process that many of our customers have to go through, and those evaluation processes are only starting. So it's going to take some time until they have an impact in our results.

And in terms of projections that we have for the future, we maintain the projections that we have been sharing over the last quarter. We expect next-generation AI PCs to represent around 50% of shipment in 2027, three years after launch, and they drive an average selling price increase between 5% and 10%. This has been the projections we have been sharing before, and we are confident that we will deliver on those in the future.

Samik Chatterjee

Analyst, JPMorgan Securities LLC



Got it. Got it. Thanks for that. And if for my follow-up, I can just ask you on the Print business. I understand the sort of headwinds on the competitive landscape that you're calling out. But how should we think about what's the – sort of what are you seeing in terms of market share play out, particularly as the competitive landscape sounds like it's tougher. Would you sort of look at it from a market share perspective and say the Japanese competitors are more competitive and you're giving up some share in certain segments? Or do you think it's more just the underlying market that's a challenge here relative to market share? Thank you.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Okay. Let me take this opportunity to share a bit more about what we are seeing on the print market, and then how do we project this going forward. As we said in the prepared remarks, clearly, the print market was challenged and we didn't see the recovery that we were expecting. But within that, we saw some signs of positive change. For example, we saw positive growth on the home space. The decline in the office category was lower than the declines we had seen in previous quarter. And as Karen said before, we have seen supplies performing as expected and especially usage is a good predictor of what is going to be happening in the future. This is why we think that the lower recovery is temporary, and we expect it to see changing going forward. The majority of it was in the office space, and this is really what drove it from a demand perspective.

From a pricing perspective, what we have seen is a continuation of what we have shared before. Many of our competitors are taking advantage of the weekend, and this is allowing them to be more aggressive from a price perspective. We have been working to reduce the cost structure of our products to be able to place profitable units. And this is what we did this quarter. We placed units. We hold our share. We grew share in the home space. And as we continue to drive cost, if we see the opportunity, we will continue to place profitable unit, which continues to be our goal.

Operator: Next question comes from the line of Erik Woodring with Morgan Stanley. Your line is open.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Hey, guys. Thanks so much for taking my questions. I have two as well. Maybe Enrique for you, something that you didn't necessarily allude to in depth in your prepared remarks on the PC side was the kind of commercial/enterprise recovery that we've been talking about for a few quarters. So can you maybe, one, just help us understand, as you look at consumer versus SMB versus large enterprises, kind of how you would characterize PC demand across each of those end markets?

And second to that, how does that influence your view that whether there is or is not a large commercial refresh cycle still in front of us, or is that behind us? Would just love to know where you think we are in that phase. And then, I have a follow-up. Thank you.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Sure. So let me go there. So I think what the market evolution and our results confirmed is that we have seen a recovery of the PC market. And this recovery is mostly driven by the commercial side of the business. Trying to provide some more specifics about your question, we saw market for enterprise growing close to 5%, government between 6% and 7%, SMB 3%, and education 1%. So we saw significant growth on the commercial space, especially in enterprise. And this is really supported by the trends that we have discussed before.

The installed base has been aging and the companies are seeing the need to refresh that. Windows 11 is starting to have an impact, and especially since Microsoft announced when they will stop supporting Windows 10. And it's not only we have seen in sales, we continue to see that in the funnel of new opportunities that we see that continues to grow and it is much stronger this year than it was last year. So we think that the refresh is still ahead of us. We have only started to see that, and we continue to believe that this opportunity is coming.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. That was really helpful, Enrique. Maybe, Karen, if – first, nice to meet you looking forward to working together. It's great that you guys are accelerating some of these – cost savings initiatives this year. If I just look year-to-date revenue through the first three quarters, revenue was down about \$400 million year-over-year. OpEx is up about \$300 million year-over-year. So, can you just help me understand how much of these cost savings as we look forward you want to flow through to the bottom-line versus it seems you are more prone maybe to make investments for longer-term growth? Can you just help me understand how with this new view on your cost savings, how you expect to balance that drop through versus reinvestment? Thank you.

Karen L. Parkhill

Chief Financial Officer, HP, Inc.

A

Yeah. Thanks for the question, Erik, and I look forward to meeting you in person, too. In terms of flow-through, our savings are flowing through and reflected really in our ability to deliver the margins within or above our target ranges for both PS and Print despite the fact that we've got this challenging macro backdrop.

Just a reminder, our savings are reflected in both OpEx and COGS, and we are reinvesting. And so, as we reinvest, we're seeing a bit of a geography shift in our P&L with some higher gross profit, offset by higher operating expenses because much of our investments are going to be in the OpEx area. We've talked about the fact that we're focused on driving these savings so that we can both offset our headwinds and continue to invest in our important growth drivers for the future, and you can expect that to continue.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Thanks so much.

Operator: Next question comes from the line of Toni Sacconaghi with Bernstein. Your line is open.

A. M. Sacconaghi

Analyst, AB Bernstein

Q

Yeah. Thank you. Hello, Enrique, and welcome, Karen. I have two questions as well. First, just for the full year, I think one of your objectives was to grow revenues for the full year. Do you still expect that to be the case? And if I could just follow-up on the last question. If I look at what your guidance is implying for this year, revenues are close to flat and operating profit dollars are expected to be close to flat, despite reaching \$1.3 billion in run rate savings. So should we be thinking Future Ready as really just providing air cover to make investments rather than structurally changing your profit profile because certainly, the 2024 results don't really seem to suggest that there's any expected overall improvement in operating profit despite the cost cutting? And I have a follow-up, please.

Karen L. Parkhill

Chief Financial Officer, HP, Inc.

A

Yeah. Thanks for your question, Toni. As we look ahead in Q4, we are expecting some seasonal growth ahead. Personal Systems, we expect to increase sequentially low to mid-single digits. And we said, given the lingering softness in Consumer, we're expecting some less seasonal growth than we've had historically. And for Print, obviously, we've got improving trends in the market, but the pace is slower than we initially expected, and we've got some continued pricing pressure. So, we expect Print revenue to increase low to mid-single-digit. And that's

driven by typical seasonal strength along with some seasonality coming out of industrial with Drupa. And obviously, we expect supplies to increase sequentially in line with last year.

I would say on the Future Ready, we are focused on driving savings to offset our headwinds and ensure that we can maintain our investments. And what you saw this quarter was us having some headwinds hit us, taking some action that's going to help us more in the quarter ahead than it did in this quarter, and purposely continuing our investment because we're focused on the longer term.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

I think, Toni, what is important also, if we look at year-to-date operating profit growth for the different businesses versus the plan that we had at the beginning of the year, we have seen operating profit growth in Personal Systems and these are combination of both the Future Ready savings and the progress that we have seen in the market. We have not seen operating profit growth in Print, and we – this was – this is not what we were expecting at the beginning of the year. But this is major change that we have seen. And the major driver for that is the smaller market that we see, especially in office and the more aggressiveness that we see, especially driven by the weakness in yen. We think both things are temporary. We don't see this as structural changes, but definitely, they are impacting our performance in 2024.

A. M. Sacconaghi

Analyst, AB Bernstein

Q

Thank you for that. And just a follow-up, Karen, I would imagine that that capital allocation is probably one of the biggest decisions you need to think about as the new CFO. I saw the increase in authorization to \$10 billion. I think last time HP increased the authorization in February 2020 was actually the \$15 billion. A, should we read anything into that? And Karen, as the new CFO, what, do you have a firm opinion yet on what capital return should be on an ongoing basis and whether 100% is really the right thing for the business over the next three to five years?

Karen L. Parkhill

Chief Financial Officer, HP, Inc.

A

Yes. Thanks for the questions, Toni. First of all, I would say don't read anything into the new authorization. We did have a \$15 billion authorization that we are near expiration and pleased that the board increased the authorization to \$10 billion at this stage. And it shows our commitment to continuing to return roughly 100% of our free cash flow to our shareholders. I think that is the right commitment for our shareholders at this stage. We're not changing any of that commitment. Longer term, we are still committed to that capital allocation policy of returning 100%. And, of course, we said unless higher ROI opportunities arise and as long as our gross leverage remains below two times. But what you've seen is us really returning roughly 100%, and we're committed to that this year, too.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Let me emphasize that, Toni, nobody should read anything on the number. \$10 billion is close to one-third of our market cap. It's a very big number, and this is going to take us several years to get there. So no – nothing important behind the number, except our commitment to continue to do it.

A. M. Sacconaghi

Analyst, AB Bernstein

Q

Thank you.

Operator: Next question comes from the line of Wamsi Mohan with Bank America. Your line is open.

Wamsi Mohan

Analyst, Bank of America Merrill Lynch

Q

Hi. Thank you so much. Two for me as well. First, if we just look over the last three quarters, and it's kind of been asked in different ways, but I just thought I'd ask it a little differently here. If you look at the last three quarters, you've shown revenue – overall company level revenue acceleration. But in the same timeframe, you've also seen EPS growth deceleration and decline in this last reported quarter. Are you hitting some type of inflection where the cost savings impact is no longer able to offset arguably where you'll be operating in terms of maybe unsustainably high Print margins this year? And as we carry the thought process into next year, does it really mean that given some of the efforts that Karen alluded to in terms of acceleration of cost savings into this year that, that – there was incremental flow-through into next year? And can we see revenue and EPS growth will be in sync? Or is there something more structural that's kind of causing this dislocation? And I have a follow-up.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Yes. We don't think there is anything structural. I think it's more the result of what we see from a competitive perspective. And I will go back to some of the data I was sharing with Toni before. Year-to-date, PCs are growing operating profit. We are not seeing that growth in Print. And this is really driven by the toughness that we see on the office space, and the aggressive pricing that we see because of the weakness of yen. On the positive side, we have seen the home business recovery and probably more important than that is the fact that supplies and our supplies business is performing as we were expecting, so really no changes in supplies.

And always supplies is a good indicator of what we expect to see in the Print side going forward because it talks about the usage that our customers are using and how really our – the device and the printers are being utilized. If you look at the guide and the midpoint of the guide, we expect EPS to grow this year. So from that perspective, we expect growth. But yes, it's slightly lower than we were expecting because of the competitive environment that we are facing, especially in Print.

Wamsi Mohan

Analyst, Bank of America Merrill Lynch

Q

Okay. Thanks, Enrique.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Thank you.

Wamsi Mohan

Analyst, Bank of America Merrill Lynch

Q

And I look forward to working with you. I guess if I could just follow-up on this on the free cash flow. When you look at sort of the lower – coming in at the lower end of the EPS range, your free cash flow range has been unchanged. You also called out some acceleration of the Future Ready program. So should we take that there's no incremental cash impact because of Future Ready program in this fiscal year? And should we think also that

despite that wider range they're more likely to come in at the lower end of that free cash flow range as well? Or are there other puts and takes that would maybe drive it higher than that? Thank you.

Karen L. Parkhill

Chief Financial Officer, HP, Inc.

A

Thanks, Wamsi. I would just start with – we're pleased with our free cash flow this quarter. It did come in better than expected, and it really reflects the strength of sequential growth in PS that drives working capital improvements. Remember that our PS cash conversion cycle is negative. And so we're going to continue to expect projected sequential PS revenue improvement, and you can expect that to contribute to Q4 free cash flow as well.

So, our outlook remains unchanged to deliver \$3.1 billion to \$3.6 billion for the full year. We're confident in our ability to deliver the remainder that we've got in Q4. And keep mind that our free cash flow is stronger in the back half. And so we just expect that strength to continue.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

I think it's also important to put in context the change of overall guide for the year. We are talking about \$0.05, which represents \$60 million, \$70 million. So you put that in the context of the cash flow guide, you will see that the impact of the small change that we are driving is really small.

Timothy J. Brown

Interim Chief Financial Officer, HP, Inc.

Just related to the Future Ready. I don't know if this is part of your question, Wamsi, but the cash outlays for Future Ready expect to be roughly the same as we've been saying of about \$300 million.

Wamsi Mohan

Analyst, Bank of America Merrill Lynch

Q

Okay. Great. Thank you so much.

Operator: Next question comes from the line of Michael Ng with Goldman Sachs. Your line is open.

Michael Ng

Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good afternoon. Thank you very much for the question. I was just wondering if you could expand around some of the comments you made around placing more hardware at Print, potentially at the expense of margins. Could you talk a little bit more about the strategy there?

And then maybe you can just update us on some of the Print KPIs. What's the current percentage of revenue that profit upfront? And what are some of the latest figures on the Instant Ink or other plans like All-In or hardware subscription today? Thank you.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Yeah. Thank you. So, let's see, first of all, our strategy has not changed, and it continue to be place profitable units. And as we had said before, we were expecting to be able to be more aggressive in the second half as we were driving cost reductions at the hardware level, and this is what we did. And this is why at the overall Print

level, we grew market share this quarter and especially in the home space and also in A3 and in A4 value. So this is what drove our ability to place more units and to gain some share, even if the environment was more competitive than what we were expecting.

We continue to make good progress in driving the business model changes that we have been sharing before. Instant Ink revenue continues to grow. Net subscribers continue to grow. The number of subscribers in the All-In program continues to grow. So we continue to make very good progress on that front. And also, we continue to be in the 50% range of profit on front unit, similar to what we have shared before. So good performance in that level and nothing relevant to share in those areas.

Michael Ng

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks. And if I could just follow up on the Personal Systems revenue seasonality, up low to mid sequentially. Appreciate there's some lingering headwinds in consumer. Is something getting worse sequentially? And is some of that consumer weakness concentrated in certain regions or industry verticals? Thank you.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

No. I think it is a consequence of the softness that we see. And this really is when we compare to previous quarters, we think that Q4 is going to be a stronger quarter than Q3 from a consumer PC perspective, but we're seeing that the growth is going to be lower than what we have seen in previous years given that we expect to see the softness in consumer. Nothing else behind that – this assumption.

Michael Ng

Analyst, Goldman Sachs & Co. LLC

Q

Thank you, Enrique.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Thank you.

Operator: Next question comes from the line of Amit Daryanani with Evercore ISI. Your line is open.

Irvin Liu

Analyst, Evercore Group LLC

Q

Hi. Thank you for the question. This is Irvin Liu on for Amit. I have one and a follow-up. So on the Personal Systems side, can you just give us a sense on how durable your recent price increases are? Understandably, some of this was commodity-driven. But in the event that we see some of these commodity prices stabilize, how do you think about your ability to maintain your ASPs?

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

I would say we are still in the process of adjusting our prices up. As I have shared in previous calls, we cannot adjust prices immediately because there are contracts that have been signed or deals that have been done. So it takes us some time to adjust. And also, this quarter, given the competitive environment that we're seeing, probably we're not able to adjust them as much as we wanted. But you should expect that we will continue to do

that in the coming quarters. If we look at the PC business from a historical perspective, we are always able to adjust prices, but it takes some time until we fully adjust them based on all the drivers that I mentioned before.

Irvin Liu

Analyst, Evercore Group LLC

Q

Got it. Thank you. For my second question, I was hoping you can provide us an update on what you're seeing in the federal government customer vertical. I think during the first half of the year, budget discussions did weigh on your business a little bit. But with that sort of in the rearview mirror, how has your federal business trended and how should we think about budget flush dynamics through the balance of the year?

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Yeah. I mentioned that slightly before when I talk about government, federal government is part of that. And it was actually the segment where we saw the strongest growth this quarter. It grew between 6% and 7%. And we think that this is going to continue in the second half. It will be a source of growth in the commercial space.

Irvin Liu

Analyst, Evercore Group LLC

Q

All right. Thank you.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

And, for example, we signed a deal – we have been signing deals with many of the large businesses. We signed one with NASA that we are especially proud of because it was a big replacement and a great mix of both workstations and notebooks. So very good deals and very good funnel in this space.

Irvin Liu

Analyst, Evercore Group LLC

Q

Thanks for the color.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Thank you.

Operator: And our last question comes from the line of Krish Sankar with TD Cowen. Your line is open.

Steven Kinney Chin

Analyst, TD Cowen

Q

Hi. Thanks so much for taking my questions. This is Steven calling on behalf of Krish. Enrique, first question for you regarding Personal Systems and the commercial refresh cycle. With the Windows 10 end-of-life scheduled to occur in about a year from now or about four quarters, I was wondering, just based on historic patterns whenever its end of life, any thoughts on how the refresh cycle might look from a quarterly basis? Do you expect fairly steady purchases from now until for next year? Or is there sort of like a stronger ramp-up towards that deadline?

And also related, do you think, I guess, the ramp volumes of Intel's new Lunar Lake, if customers might be waiting for that in conjunction with the replacements?

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Sure. Let me go through both. So, first of all, the majority of refresh is still ahead of us. If we compare to previous cycles, it has probably started in a slightly slower way, but we're clearly picking up momentum. And when we look at the funnel of opportunities that we have and the growth of the funnel compared to where we were a few quarters ago, it's definitely growing and definitely supporting the opportunity that we see. And in terms of customers waiting for the Intel refresh, this is not something that we are seeing. The opposite, we are starting to see good momentum in commercial as the results this quarter reflect and as the projections that we have shared for Q4 and for the coming quarter.

Operator: Ladies and gentlemen, that concludes the question-and-answer session. I would like to turn the call back over to Enrique Lores for any closing remarks.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

So, let me just start by – close by saying thank you to all for having joined today. A big welcome to Karen to the business and to the team. A big thank you to Tim for the great work that he has done over the last quarters. And going back to the business, I think Q3 confirmed the momentum that we have. We are pleased to see the company growing again after nine quarters. So, I think that's a great change. And we also know that the competitive environment continues to be difficult, especially in Print, especially in office and we are accelerating our cost actions to compensate for that. But we remain very confident in the long-term opportunity that the company has especially integrating AI into our portfolio and redefining the future of work. This is where the company is focused and this is where we are really investing to continue to have profitable growth in the future. Thank you, everybody, and looking forward to seeing all of you in the coming weeks. Thank you.

Operator: This concludes today's conference call. You may now disconnect.