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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Third Quarter 2026 HP, Inc. Earnings Conference Call. My name is Lisa, and I'll be your conference moderator for today's call. At this time, all participants are in a 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 Mr. Alok Juyal, Global Treasurer and Head of Investor Relations. Please go ahead.

Alok Juyal

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

Good afternoon, everyone, and welcome to HP's third quarter 2026 earnings conference call. With me today are Bruce Broussard, HP's Interim Chief Executive Officer; and Karen Parkhill, HP's Chief Financial Officer.

Before handing the call over to Bruce, let me remind you that this call is a webcast, and replay will be available on our website shortly after the call for approximately one year. We posted the earnings release and accompanying slide presentation on our Investor Relations webpage 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 business 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 of 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. References to HP channel inventory refer to Tier 1 channel inventory and market share references are based on calendar quarter information.

In addition, unless otherwise specified, all financial measures discussed today are non-GAAP, and EPS refers to non-GAAP diluted net earnings per share. Please refer to the tables in today's earnings release and the accompanying slide presentation on our website for reconciliations of these non-GAAP measures to the most directly comparable GAAP measures.

With that, I will now turn the call over to Bruce.

Bruce Dale Broussard

Interim Chief Executive Officer & Director, HP, Inc.

Thank you, Alok. And thanks, everyone, for joining us today. I'm pleased to share that we delivered record third quarter revenue and continue to exceed expectations on EPS. We're also laying a strong foundation for the AI era and are building momentum. Our strategic execution, robust commodity mitigation plan, and relentless commitment to innovation are helping us advance our business and enable our customers to successfully navigate this most significant technology shift.

Today, I'll share our third quarter highlights, discuss the innovations we are bringing to market, and touch on how we are managing the current environment. Before I do, I know some of you are interested in an update on the CEO search. I am sure you can appreciate that I am unable to share details or a timeline, but the search is proceeding well and we continue to make good progress on finding the right next leader for HP.

In the meantime, having spent the past several months leading the company day-to-day, I developed a deeper perspective on HP. Four observations stand out. First, we need to continue advancing our operating infrastructure to become better connected, AI-enabled and data-driven, improving productivity while delivering better experiences for our customers, partners and employees.

Second, we will continue advancing our devices to be AI-leading by bringing more computing to the edge where context is created. This will enable more intelligent devices that anticipate needs and proactively solve problems. Third, we need to accelerate our evolution toward integrated solutions across our broad portfolio of devices, creating differentiated offerings that deliver greater value to our customers, expanding reoccurring revenue opportunities. And lastly, we provide greater strategic clarity around where we choose to play and allocate capital resources and capabilities against those priorities, the focus and discipline.

HP has tremendous assets; one of the most iconic brands in technology, a strong global footprint, sophisticated supply chain, deep commercial relationships, and a talented team. And there are meaningful opportunities to make HP stronger, more cohesive, and more effective. We are taking action now to strengthen the foundation, sharpen our priorities, and improve execution so that when our next CEO steps in, they can build on that momentum and lead HP into its next chapter of growth and value creation.

Let me get to our results. This quarter, we delivered \$15.7 billion in revenue, a record Q3 for HP. This represents an increase of 13% and our ninth consecutive quarter of top line growth, driven by another strong quarter in Personal Systems, while Print results were in line with our expectations.

We executed on our commitments and accelerated our key growth areas, which collectively grew 46% year-over-year and faster than our core. We continue to take share in high-value segments while managing commodity headwinds with our mitigation playbook, enabling us to deliver EPS above our expectations even when excluding a tariff refund benefit, while also delivering strong free cash flow. In short, we did what we said we would do.

In Personal Systems, we achieved our 10th consecutive quarter of revenue growth, up 18% year-over-year, driven by solid growth across both Commercial and Consumer segments. We are particularly pleased with this continued strength of our AI PC portfolio, which continued to grow and is still expected to be 50% of our shipment mix by the end of this fiscal year. At the same time, consistent with our strategy, we delivered double-digit revenue expansion in our key growth areas, including advanced compute solutions and workforce solutions. We also continue to capture share in high-value categories, including premium PC, returning us to share leadership in the Americas. Overall, these results show customers continue to invest in the hardware and solutions they need to run AI [ph] or work habits (00:07:30).

Turning to Print. Revenue was down 2% year-over-year in what continues to be a competitive market. We remain focused on pricing discipline and placement of profitable units. We said we would double down on [ph] big tank (00:07:48) market and we did, gaining another 4 points of share this quarter. Industrial printing delivered its 12th straight quarter of revenue growth as customers continued to leverage our award-winning hardware portfolio to drive their digital workflows and grow their businesses. Across both segments, we are balancing near-term execution with long-term investment, and shifting our portfolio towards high value and more profitable categories.

Turning to innovation. This quarter, we unveiled advancements designed to help our customers thrive in the AI era. We believe the future of AI is hybrid. That means AI will operate both in the cloud and increasingly at the edge. For customers already seeing the cost of cloud-based AI add up, economics alone makes edge AI compelling. It can also improve security, latency, and strengthen data governance. To make edge AI a reality, we are working with customers and ecosystem partners to build platforms that extend data center class AI capabilities to the edge.

By enabling GPU sharing through HP Z Boost and integrating it with our WXP software layer, security and device features, we are making traditional cloud AI capabilities available locally. Building advanced AI locally has too often meant specialized infrastructure, large budgets and complex setups. We are changing that. With our HP ZGX Fury, we bring data center class AI to the desk side, so teams can build and run frontier-scale models and always-on agents locally. The response since we first showed this direction at Computex has been clear. Customers want local AI they can own.

Over the next month, we will extend this momentum into more of the form factors people already carry, with the memory and power those on-device models actually need. A leading automotive company is using HP's solutions to bring visual, AI and inferencing directly to its manufacturing line; helping improve quality, inspections, performance and economics. We see the same potential in many other sectors that require onsite compute performance, strong security, and the most cost-effective ways to manage increasingly complex AI models. This creates significant opportunities in areas like retail, public sector, and healthcare.

We are also advancing what PCs can do as edge devices. In the agentic era, PCs are becoming partners that understand your needs and help meet them. So, we are reimagining what a personal computer can do with our new OmniBook Ultra 16, powered by NVIDIA RTX Spark. It brings the compute needed to build and run sophisticated AI models and personal agents to a thin, mainstream mobile PC. And our OmniDesk Mini Desktop combines full-sized performance with a compact design and built-in AI capabilities.

In Print, we're already delivering tangible customer value with AI. In June, we expanded our flagship AI-powered print experience, Precise Print to more than 150 countries. By intelligently removing unnecessary web content before printing, Precise Print helps customers reduce paper usage by up to 38% and ink consumption up to 47%.

Our HP Nio AI-companion brings agentic AI to industrial print operations and is gaining momentum. Nio was awarded the 2026 European Digital Press Association Award for Best Software Agent in the Print Industry AI Category. This underscores our commitment to intelligent, data-driven production ecosystems and built-in remote remediation capabilities and, importantly, solving uptime problems for our printer service customers. In Q3, we also signed a three-year, \$100 million strategic agreement with RRD, one of the world's leading print service providers. This reflects our shared vision to accelerate AI and industrial automation and print production.

Succeeding at the edge also requires intelligent ways to manage the technology portfolio. Work moves across PCs, meeting rooms, collaboration tools, printers, and other endpoints. Our WXP platform helps CIOs track and manage fleets of connected devices and applications. This quarter, we integrated HP Poly Lens and collaboration capabilities into WXP, giving IT teams greater visibility across PCs, printers and collaboration devices.

By bringing together insights that were previously isolated across different environments, organizations and channel partners can turn data into actionable intelligence, improve workforce experiences, lower costs, and establish a governance layer. WXP was named a leader in the 2026 Gartner Magic Quadrant for Digital Employee Experience Management tools.

We believe the future of computing will be increasingly intelligent and integrated, with devices anticipating user needs, executing tasks seamlessly, and connecting traditionally separate cloud and desktop environments. By bringing AI capabilities closer to users, these devices can provide the context required for more effective reasoning and inference.

AI at the edge offers meaningful benefits for our customers, while creating significant incremental growth opportunities for HP and the broader industry. We believe HP is uniquely positioned to lead this evolution through our broad portfolio of products and services, trusted brand, presence in more than 180 countries, and robust innovation pipeline. Together, these strengths create substantial opportunities for growth.

At HP, we consider ourselves customer zero, using our own business as a proving ground for the products and solutions we develop. Like our customers, HP is benefiting today from localized AI capabilities using edge inferencing across our business. For example, in our Singapore production facility, teams are using our ZBook Workstations, running on Opus model, to enhance quality assurance and detection capabilities on the manufacturing line. This past quarter, we scaled our work with OpenAI.

Through OpenAI Frontier, we are integrating AI across the customer and partner experiences, the HP Store, Digital Support, WXP telemetry, employee productivity, and software development. Early deployments are already helping teams accelerate engineering workloads, enhance security analysis, and automate routine tasks, while maintaining HP's high standards for data, governance and security. We are just getting started with OpenAI and expect to share more as we turn our pilots into scaled capabilities that create business value.

Let me now focus on the external supply and cost environment, which remains complex. We continue to effectively execute our mitigation plan. We remain confident in our memory and storage supply availability for this fiscal year, and our focus on our needs into next year and beyond. The enhanced operating model we are building is designed to compound over time, creating a more connected, process-led enterprise that can serve customers with greater consistency, speed, and predictability.

What we are building is not a short-term efficiency program or a situational response, but a fundamental, stronger operating model that better connects planning, decision-making, and execution across the enterprise. We already see early signs of this working in areas such as order delivery predictability, improved accuracy rates, leading to better conversion on incoming orders.

With solid mitigation efforts already in place and additional steps planned, we remain confident about HP's upside potential, both in the near term and long term, when the constraints the industry face begins to lift.

Looking ahead, we remain focused on being the trusted resource for customers in navigating a dynamic environment. In Personal Systems, we see opportunity for increasing commercial workloads, AI PCs, advanced compute for the broader shift towards hybrid AI and growing need for context-aware use cases at the edge.

In Print, we will continue to place profitable hardware units, grow Big Tank and subscription businesses, and invest in industrial applications. Our teams will continue to manage memory storage and geopolitical pressures through pricing, sourcing, supply chain actions, productivity, and portfolio choices.

The opportunity ahead is significant. AI is moving from isolated experimentation into day-to-day workflows, devices, and environments. HP is well-positioned to be the customer's trusted edge AI platform, helping them make the most of that transition.

In closing, I'm proud of how the HP team performed this quarter. We delivered strong Personal Systems growth, managed through a challenging Print market, and continued to drive innovation that will shape how work is done.

Thank you to our employees for their commitment, and to our customers, partners, and investors for the trust you continue to place in HP.

With that, I'll turn it over to Karen.

Karen L. Parkhill

Executive Vice President & Chief Financial Officer, HP, Inc.

Thank you, Bruce, and good afternoon, everyone. We are pleased with our third quarter results, which reflect solid execution and continued progress against the priorities we outlined at the start of the year. For the third consecutive quarter, we delivered better-than-expected top line growth and EPS at the top or above our guidance range, underscoring the discipline of our teams in a dynamic operating environment.

We drove yet another quarter of robust revenue growth, with continued momentum in Personal Systems and key growth areas. Double-digit sequential growth in Personal Systems also supported strong free cash flow in the quarter. And at the same time, as Bruce mentioned, we are continuing to drive our four-pillar plan to mitigate rising input costs. These ongoing efforts to secure supply, shape demand, implement targeted cost reduction, and take disciplined pricing action all continue to ramp and have enabled us to deliver OP rates in line with our guidance, even after excluding the favorable impact of tariff refunds received in the quarter.

Now, let me walk you through more details on our third quarter performance. We delivered 13% revenue growth, or 11% in constant currency, with growth across all regions. By geography, strong Personal Systems performance drove constant currency revenue up 22% in APJ, 10% in EMEA, and 5% in the Americas, as customers continued to upgrade their devices to manage more demanding workloads.

Our gross margin at 18.8% was down year-over-year as expected, driven by higher commodity costs and increased mix from Personal Systems. Pricing, strong growth from our key growth areas, and tariff refunds partially offset these headwinds.

Strong revenue growth, along with our focus on disciplined cost management, helped to drive operating expenses down as a percent of revenue while still enabling important investments in innovation, product promotion, and our people.

All in, our operating margin was 6.5%, and when excluding the benefit of tariff refunds, this was in line with our expectations. Below operating profit, higher cash balances contributed to lower financing costs in the quarter and led to better-than-expected other income and expense.

Our net earnings per share at \$0.83 grew 11% and includes \$0.11 related to tariff refunds. Importantly, without the tariff benefit, we still delivered EPS above the top end of our guidance range.

Now, let's turn to segment performance. In Personal Systems, we delivered record third quarter revenue of \$11.8 billion, up 18% in a stronger-than-expected market. While volume was down as expected, our continued prioritization of higher-value unit placements, repricing for higher commodity costs, and services expansion more than offset the volume headwind. And consistent with our strategy, we gained share in the premium PC

categories and delivered strong performance from our key growth areas, with double-digit revenue growth in AI PCs, advanced compute solutions, hybrid systems, and workforce solutions.

From a segment perspective, we also delivered double-digit revenue growth in both Commercial, up 22%; and Consumer, up 10%; driven by disciplined pricing actions and favorable mix. Aligned with our focus on higher-value segments, Commercial represented over 70% of our Personal Systems revenue in the quarter.

PS operating margin of 4.6% was below our long-term range as expected, and down year-over-year from higher commodity costs and variable compensation, which we worked to partially offset with repricing actions and other cost reductions.

Turning to Print, as expected, revenue was down 2%, or 4% in constant currency, on lower supplies and hardware volumes in what remained a competitive pricing environment. These headwinds were offset in part by key growth area contributions, including continued momentum in industrial print, fueled by increased usage, double-digit growth in 3D, and a continued ramp of subscribers to our All-In Plan.

By customer segment, Consumer revenue declined 2%, with lower traditional printer volume offset in part by higher ASPs. Aligned with our strategy, we continued to increase our penetration of the tank printer market, delivering 42% unit growth in this important profit upfront category and gaining share both year-over-year and sequentially.

In Commercial, revenue was down 1%, driven by lower volume and unfavorable mix. We saw particular softness in the office market in North America and China, and our results reflect our focus on placing profitable units in an aggressive pricing environment. And in line with expectations, supplies revenue was down 4% in constant currency, impacted in part by headwinds in the Middle East.

All in, Print operating margin was 18.1%, up roughly 1 point year-over-year, reflecting the favorable impact of tariff refunds and pricing actions. Excluding the benefit of tariff refunds, Print operating margin was in line with our guidance at the low end of our long-term range.

Now, let me move to cash flow and capital allocation. We generated over \$1.7 billion in cash from operations and roughly \$1.6 billion in free cash flow in Q3 on the strength of Personal Systems performance. And as planned, we paid down slightly more than \$500 million in debt maturities due in the quarter.

Through disciplined working capital management and robust Personal Systems growth, we have driven year-to-date free cash flow of more than \$2.5 billion, well ahead of our typical seasonality. Through both dividends and share repurchase, we returned nearly \$600 million to shareholders in the quarter, and over \$1.5 billion year-to-date, and we ended the quarter within our target leverage range.

As always, we remain committed to returning approximately 100% of our free cash flow to shareholders over time, as long as our gross leverage remains under 2 times and there aren't better return opportunities.

Looking ahead to the remainder of our fiscal year, we continue to expect input costs to rise, putting near-term pressure on our operating margins, particularly in Personal Systems. We are factoring that into our Q4 outlook, along with the traction we are making on our cost mitigation plans.

By segment, in Personal Systems, we remain aligned with industry experts, projecting the PC unit TAM to decline high-teens year-over-year for the second half of the calendar year. Given the impact of commodity-driven price increases, we expect below seasonal revenue performance in Q4.

That said, we do expect year-over-year revenue growth in the quarter, driven by pricing actions, share gains, and premium categories, attach of higher-margin offerings, and increased penetration of AI PCs as more AI workloads move to edge devices.

We continue to expect memory and storage costs to increase further as a percentage of the bill of materials. And as we signaled last quarter, we expect our Q4 margin to be below Q3 levels and then to sequentially improve as we look ahead into FY 2027.

In Print, our outlook is aligned with industry expectations for a mid-single-digit decline in the hardware market in the second half of the calendar year. We will continue building on our share gain progress in tank printers through portfolio extensions and targeted promotions while completing the rollout of our latest AI-enabled laser portfolio in office by the end of the fiscal year.

For Q4, we expect Print revenue to be in line with historical seasonality. And excluding the impact of any tariff refunds in the quarter, we expect operating margins in the lower half of our long-term range, reflecting our focus on incremental hardware unit placement and near-term input cost pressures, which we are actively working to mitigate. Beyond the segments, we expect Q4 OI&E and corporate [ph] overheads (00:28:56) to be similar to Q3 levels.

All in, based on our strong performance in the quarter, we are increasing our outlook for the fiscal year. We now expect diluted net earnings per share to be in the range of \$3.19 to \$3.29, up from our previous range of \$2.90 to \$3.10, and including a \$0.19 favorable impact from estimated tariff refunds.

For Q4 specifically, we expect diluted net earnings per share to be in the range of \$0.69 to \$0.79, including an \$0.08 favorable impact from estimated tariff refunds.

And given our improved earnings performance and strong free cash flow in Q3, we are also increasing our outlook for free cash flow to be in the range of \$3 billion to \$3.2 billion for the fiscal year.

Looking beyond this fiscal year, as Bruce said, we see meaningful opportunity as workloads continue shifting to the edge, and we are well-positioned to lead this transition through our trusted devices, software, and services.

In Personal Systems, we plan to continue to invest in innovation across AI PCs, workstations, and high-value solutions, with a disciplined focus on gaining share in premium categories. We expect input costs to continue to rise but at a slower rate than we have experienced in fiscal 2026. And of course, we remain focused on mitigating the impact of this dynamic commodities environment and expect to bring our PS OP rate back into our long-term range as quickly as possible in FY 2027.

In Print, we will remain focused on protecting operating profit through share gains in profit-upfront tank printers, expansion in consumer subscriptions, strengthening our position in office through AI-enabled innovation, sustaining momentum in industrial graphics, and maintaining cost discipline. I will share more on our fiscal 2027 outlook in our Q4 earnings call.

In closing, we are pleased with the performance in the quarter and the progress we are making against our strategic and financial priorities. We have a strong track record of execution and remain confident in our ability to drive continued growth and value ahead.

Turning to Q&A, given the continued dynamic PC environment, we have invited Ketan Patel, Head of Personal Systems to join us. So, with that, I would like to hand it back to the operator and open the call for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. And we will now begin the question-and-answer session. [Operator instructions] And our first questioner today will be Amit Daryanani from Evercore ISI.

Amit Daryanani

Analyst, Evercore ISI

Q

Yeah. Thanks a lot. Good afternoon, everyone. I just have a question and a follow-up. But maybe just to start with, Karen, could you spend a little bit of time on the Personal Systems assumptions for Q4? I think you're sort of implying PS revenues will be sub-seasonal, but you should still see year-over-year growth in the model.

I think that's a fair way to think about it, but love to understand, do you see that fiscal Q4 trend line of units being down high-teens, with revenue is still growing by a few points, persisting through fiscal 2027 or is that more in Q4?

Karen L. Parkhill

Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah. Thanks for the question, Amit. On Q4, our outlook reflects the industry's view that PC units will decline high-teens in the second half as pricing actions pressure demand. As we said, though, we do still expect to drive year-over-year revenue growth. We expect it to be down quarter-over-quarter but growing year-over-year, with a richer mix of higher-value categories, including premium and commercial and consumer PCs, AI PCs, workstations, and attach offerings, along with pricing, and all of that to more than offset the lower units.

I would also note that we're maintaining our discipline, too, prioritizing profitable growth and edge AI-driven demand, rather than chasing a low-margin share. Our comments on revenue growth relate to Q4. It's too early for us to be giving FY 2027 guidance. We'll be doing that on our Q4 call.

Amit Daryanani

Analyst, Evercore ISI

Q

Fair enough. I figured I can try nonetheless. On memory, in your prepared – in the press release, you folks talked about meaningful improvements in memory supply, higher fulfillment rates. Can you just talk about is that just you getting better allocations or there's more spot availability? Just what do those things mean for HP, Inc.? And from your perspective, where do you think PS margins would trough as you go forward? Thank you.

Karen L. Parkhill

Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah. Thanks for the question. On supply, we are getting the supply that we need to fill our customer demand, so that has not been an issue. And as we look ahead in Q4 at our margins, I would say that – we said that we

expected Q4 margins to be a low point last quarterly call. We continue to believe that, but we have high confidence that it will improve from there.

As we work through this volatile environment, I would say we've not only been transparent, but we've also shown that we can deliver what we say we will do. And we signaled at the beginning of the year that margins would be increasingly impacted as we move through the fiscal year.

Costs have continued to rise and we are working through the benefit of the lower cost of inventory on our balance sheets that we had more in the first half. And now you're seeing inventory that is carrying higher costs working through our P&L in the back half. But at the same time, we've been successfully implementing our mitigation plan. We've secured supply, we've qualified new suppliers, we've reshaped demand and configuration, and we've taken targeted cost actions and re-priced with discipline.

And as we said before, some of those actions move quickly, while others, like product redesign and platform optimization on the cost reduction side and long-term contract revisions on the pricing side, take some lead time. We also expect margin benefit from the areas where we're prioritizing growth, in the premium categories, in AI PCs and higher-value attach and edge AI workloads, and all of that contributes to improved overall margins.

So, on input costs, we said we still expect them to rise in FY 2027 and in Q4, but at a slower rate than we've seen to date. So, our focus, as I said, is just going to be to recover PS margins back to the long-term range as quickly as possible while also continuing to drive profitable growth.

Operator: The next question comes from Mark Newman, Bernstein.

Mark C. Newman

Analyst, Bernstein

Q

Hi. Thanks for taking my question. Following up on the PS margin, on the timing of memory cost increases, is the inventory – the lower-cost memory inventory benefit done, or in the Q3 that you just printed, is there still some cost benefit? I'm just trying to figure out on the cost line, are there more headwinds for you to normalize to the market price of memory or is the upcoming cost increase just based on the market increases of memory?

And related to that, on pricing for PCs, obviously, these results are implying quite considerable price increases which is leading to the strong revenue growth. But I'm trying to understand, is there – because some of your revenue is coming from channel relationships and those channel relationships may be a bit of a lag in terms of how quickly you can increase prices. So, are you caught up to where you want to be for pricing? Or are some of those relationships with some of your channel partners still need catching up due to whatever terms? In other words, I'm trying to figure out, is there some more upside to pricing or should we expect you to be pricing in line with the market going forwards? Thank you.

Karen L. Parkhill

Executive Vice President & Chief Financial Officer, HP, Inc.

A

Sure, Mark. I'll start answering that long question and I'll ask Ketan to chime in, if he's got anything to add. I would say, first, on the PS margin, yes, we were benefiting earlier in the year from that lower-costed inventory that was on our balance sheets and flowing through to the P&L. While we still have a mix of lower-costed inventory, I would say that benefit is largely behind us. And we now have higher-costed inventory that's working through our P&L, as I said.

But on the cost side, we have other things that we are doing to help drive costs down. Things like product redesign and platform optimization, those things take some time, and we'll begin to start seeing the benefit of some of those things going forward. And that is one of the levers that will be helping us improve our margin as we move forward.

On pricing, we have been increasing pricing. We expect to continue to increase pricing as input costs rise. We use that as a last lever after we have focused on demand shaping and product reconfiguration and taking costs out everywhere that we can, we use pricing as the last lever. So, I'll let Ketan add anything.

Ketan Patel

President-Personal Systems, HP, Inc.

A

Thank you, Karen. You covered it very well on few of the pricing questions. I'd just add one thing that we have several go-to-market options, including we do business with online channels, we do business with our regular channel partners, enterprise customers, and we also have contractual end user deals.

And all of them have different durations for reflecting updated pricing. So, the lag can range from immediately to few months before price changes would be fully reflected for all the customers, and this is all post mitigations, which Karen already spoke about. So, definitely, we'll continue to work on some of those actions.

On top of it, I would say that while pricing is one of the levers, some of the actions which we have taken, let me quote couple of examples which are helping us navigate the situation. This robust supply-informed demand planning and demand-shaping muscle, which we are leveraging through our WXP, Workforce Experience Platform insights to identify key configurations for specific customer workloads, is helping customers with the best value, with the right cost. And the second example I would quote is we have aggressive design for cost initiative, which has led to highly optimized cost for specific products for specific countries, which gives us structural capability to serve customer needs, again, at the right value and cost.

Operator: The next question is from Krish Sankar, TD Cowen.

Steven Kinney Chin

Analyst, TD Cowen

Q

Hi. Thanks for taking my questions. This is Steven calling on behalf of Krish. The first one that I had was for [ph] actually (00:41:29), Bruce. Bruce, like, previously during the prepared remarks you talked about a 50% AI PC mix target by year-end. I'm just kind of curious, like, in terms of the configurations of those AI PC, does that include a lot of AI workstations? And what's sort of the attach rate of discrete AI accelerators within that AI PC mix?

Bruce Dale Broussard

Interim Chief Executive Officer & Director, HP, Inc.

A

Well, thank you for the question. And really, it is oriented to the AI PCs in totality, not the workstation. So, just to provide that context relative to the attach rate, the attach rate on the AI PCs are very similar to the attach rate that we see in other parts of the PC business, and that's traditionally around one-third of a 30% margin kind of opportunity for us.

On top of that, we also see opportunity to continue to add solutions to our AI PCs. And where that is oriented to is really things like the HP IQ, which will be coming out later this year. Device security is another area where we look at and even in our areas of Print where we have AI-enabled Print, which complements our AI PCs.

And so, I would say as you look at the AI PCs, they are – as Ketan and Karen have talked about, they are premium pricing and are at significant value to our customers that are complemented by the attach rate that we normally have. And then on top of that, we have a number of solutions that we're able to add to the AI PCs that offer it to be more valuable to the customer and, frankly, more valuable to us.

Ketan Patel

President-Personal Systems, HP, Inc.

A

I'd just add on top of what Bruce mentioned, the AI PCs were a strong performance also for us this quarter. It contributed 46% of our mix, in line with our 40% to 50% forecast for FY 2026. And we are expecting it to get up to 60% to 70% in 2027 and more than 70% in 2028.

Also, the work which we have accelerated with ISV partners, the software companies with more than 150 of them to leverage the capabilities of these PCs, and as Bruce mentioned in his comments, with a growing AI workload being pushed to the edge, driven by cost, latency, and privacy considerations, the role of these PCs in customer fleets will continue to expand. So, this will be margin accretive to us, and that's what we'll continue to focus in terms of AI PC mix, as well as workstations, which are critical categories for growth.

Steven Kinney Chin

Analyst, TD Cowen

Q

Got you. Thank you for that color, Ketan. And for my follow-up, I had a question on the strong double-digit growth that you guys are seeing in both the EMEA and APJ markets. If I recall correctly, the Windows 11 refresh was a big driver of that in the near term. Kind of curious like in the current quarter and maybe like the quarter after as well, is Windows 11 refresh still a big driver there or is that going to play out in the near term? And any other thoughts on demand drivers there would be helpful. Thank you.

Karen L. Parkhill

Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah. Thanks for the question, Steven. We now see roughly 70% of the Win 11 refresh complete. That's been a good catalyst for the last couple of years, and we are seeing it still drive small and medium business demand.

I would say, that said, the Win 11 catalyst is really being increasingly augmented by a rising demand for AI PCs, edge AI, and agentic workloads requiring more capable PCs. So, we honestly see these tailwinds to shape the market in the coming years, and we're proud to have an increased penetration of AI PCs today as part of our shipments, as Ketan just mentioned, and a growing part as we look ahead.

Operator: Your next question today comes from Wamsi Mohan, Bank of America.

Wamsi Mohan

Analyst, Bank of America Merrill Lynch

Q

Hi. Thank you so much. I was wondering if you could talk about channel inventory levels in both PC and Print and how they're shaking out maybe relative to where you would ideally like them. And I have a follow-up.

Karen L. Parkhill

Executive Vice President & Chief Financial Officer, HP, Inc.

A

Thanks, Wamsi. I would say that we are definitely disciplined in how we manage inventory across our channels. And in an inflationary cost environment, we would expect inventory to be higher than normal, and that's exactly

what we see in PS right now. But that said, the inventory levels in the channel remain well controlled. They're within our demand outlook, and they continue to support the supply continuity that we really want in a constrained memory environment. And in Print, our channel inventory remains at healthy levels and within the range that we would consider normal.

Wamsi Mohan

Analyst, Bank of America Merrill Lynch

Q

Okay. Thanks, Karen. And as a follow-up, we heard a lot about AI and AI PCs as part of the mix. And I'm just wondering, are you seeing these customers already quantifying ROI from local inference deployments and what kind of use cases are driving that? Or is it more so that customers are selecting AI PCs because that's becoming the default specification in refresh cycles. Just how much utility is being provided today towards ROI from AI PCs versus future proofing, I guess?

Ketan Patel

President-Personal Systems, HP, Inc.

A

I'll take that. So, Wamsi, thank you for the question. Clearly, this is – the AI PCs are now providing more value than what it was last year. Clearly, as the workloads are coming from cloud to the device, it's adding to significant value for our customers, especially on token economics, which is a big topic right now as you start deploying workloads in a customer environment. So, that's a significant value which customers are seeing.

On top of it, they also see advantage of keeping sensitive data closure to where it is generated, reduce dependency on network connectivity, improve response times, and manage AI cost, as I said earlier, more effectively.

So, this, we see as adoption developing in stages. It right now is helping us on higher-value use cases where the return on investment to the customer is clear, such as employee productivity, engineering, and design workflows or customer service, predictive maintenance kind of use cases. As customers gain confidence in some of these use cases, these capabilities will expand across fleet of devices and also to broader enterprise workflows. So, that's how we see the current trend.

Operator: Up next, you have a question from Asiya Merchant from Citi.

Michael Anthony Cadiz

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good afternoon. It's Mike Cadiz for Asiya Merchant with Citi. Let me just go ahead and ask both my questions at once. So, the first would be, could you give, please, more color on the upside to the free cash flow guide? Could it be more than just tariff refund related or are there more levers in that? So, that's question one.

And the second one would be on additional color, please, on the proportion of enterprise customers deploying AI PC in various pilot versus at-scale kind of deployments. Thanks.

Karen L. Parkhill

Executive Vice President & Chief Financial Officer, HP, Inc.

A

Thanks, Mike, for the question. I'll answer the free cash flow, and then I'll ask Ketan to take the second one. In terms of free cash flow, we are pleased with our performance year-to-date. It is above seasonal performance and enabled us to increase our guide for the full year. That performance is really driven by strong Personal Systems growth, along with continued focus on working capital. Our cash conversion cycle is negative 37 days, and we

continue to have a strong focus on that. So, it was driven by, yes, more than the tariffs. Tariffs helped a little bit, but clearly driven by underlying performance.

Ketan, do you want to take the second question?

Ketan Patel

President-Personal Systems, HP, Inc.

A

Yeah. On top of the comments which I had on the AI PC and the workloads, I would say that there are clearly unique needs which we are addressing right now through our PCs, printers, peripheral services, and meeting room solutions for modern work. Simultaneously, our solutions like WXP are allowing great control for IT and admins to monitor, support the end user, which is becoming a big need in the world where you will have humans and agents operating together.

And currently, our AI PCs are most capable for running AI models locally. And as Bruce mentioned, we have debited all of this in a first local, first AI model through HP IQ. And also Wolf Security solution, which HP is implementing, is unique and protecting at a bias level intrusions. So, some of these are coming together as customers are deploying, as I said earlier, on high-value use cases and expanding this at a broader level.

But one thing which we are seeing as a trend for HP, which is a great advantage for our positioning, is our ability uniquely to connect the endpoint, the user experiences, enterprise manageability, security, and the broader IT environment, is something which is becoming a good value equation, which we are able to deliver.

Bruce Dale Broussard

Interim Chief Executive Officer & Director, HP, Inc.

A

[indiscernible] (00:51:24). Maybe I'll just add a little bit there. I would say that we are seeing better ROI in a number of different areas. And I think that a large one we're seeing, as Ketan mentioned, was developer customer service, but we're also seeing it in manufacturing where our workstations are able to be incorporated in the manufacturing line or our quality control.

They can use it for quality control and other AI-related manufacturing. And so, we do see it there. We also see it in the retail area. And in addition, we're beginning to start to see it in the healthcare area. We're seeing a significant amount of interest and demand as a result of some very powerful use cases, both in these subsectors that we're focused on, and in addition, in the broader areas, like what Ketan has talked about.

Operator: Your next question comes from Erik Woodring from Morgan Stanley.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Hey, guys. Thank you very much for taking my questions. And I apologize I hopped on late, but, Karen, you sound very optimistic about fiscal 2027 Personal Systems' operating margins, and even the October quarter being the trough. But if we think about unit declines accelerating, component inflation is continuing, you're working through higher cost inventory, and it's fair to probably imagine demand elasticity likely increases due to these factors, it's not totally clear to me what the factors are that allow Personal System operating margins to improve? Even NVIDIA tonight is going to margin pressure next year from memory costs. So, can you maybe just help me, please, better understand the offsets to some of these pressures that we're thinking about? And then I have a quick follow-up. Thanks so much.

Karen L. Parkhill

Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah. Sure. Sure, Erik. Happy to help. So, obviously, we talked about the fact that we expect costs to continue to increase, but at a slower rate. So, I'll start there. And at the same time, the mitigation actions that we've been taking are really starting to kick in. So, things like long-term contract revisions on the pricing side, which takes some lead time and other cost actions that we've been working through like product redesign and platform optimization, that can also take some time starting to kick in.

And I would say, importantly, we're also going to continue to focus on what we've been driving so far, which is an increased mix of premium products with AI PCs and workstations, and also a greater mix of attach offerings where we've got plenty of opportunity to drive even more. And that's inclusive of peripherals and services, things like our WXP platform, et cetera. So, it's all of these things combined that give us high confidence that we can drive improvement from here.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Okay. All right, I appreciate that. And as a quick follow-up, I know, obviously, myself included, there's been a focus on PS margins on this call. What about Print operating margins just as you think about them into next year, how do you expect them to trend? And what are some of the puts and takes to consider? Thanks so much.

Karen L. Parkhill

Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah. I would say on the Print margins, in FY 2027, I'll start by just confirming that we remain comfortable with our long-term operating profit range of 16% to 19% for Print, and that still holds for our fiscal 2027. Where we land in that range can really vary quarter to quarter, and is influenced by seasonality along with the magnitude of long-term profitable units that we're able to place in a competitive environment.

But as we look more broadly to FY 2027, we will remain focused on protecting operating profit through share gains in profit-upfront tank printers, through expansion in consumer subscriptions, and by strengthening our position in office through some AI-enabled innovation that we've been bringing to market, along with sustaining momentum in industrial graphics and, of course, always maintaining cost discipline. So, hopefully, that helps.

Operator: Our next question today comes from Katherine Murphy, Goldman Sachs.

Katherine Murphy

Analyst, Goldman Sachs & Co. LLC

Q

Thank you for the question. It was impressive to see the 18% revenue growth in the Personal Systems segment, though units were down 16%. And I was wondering if you could help quantify or otherwise rank how like-for-like price increases, portfolio mix shift benefits, and then the increased attach of related services benefited that implied ASP increase in the quarter? And if one-third of gross profit in this segment coming from those attach businesses is still the right way to think about the mix? And then I have a quick follow-up. Thank you.

Karen L. Parkhill

Executive Vice President & Chief Financial Officer, HP, Inc.

A

Thanks, Katherine. I'll take that question. And, Ketan, feel free to add if you want. I would say, all of the things that we are doing really drove our revenue growth, and we're not going to quantify how much was related to each. But

clearly, mix played a role as we drive more premium share, more AI PCs, more hybrid, more Workforce Experience Platform, all of those things played a role. Along with pricing, we've been continuing to increase pricing given our higher input costs, and that also played a role, too.

Ketan, anything you would add?

Ketan Patel

President-Personal Systems, HP, Inc.

A

Yeah. Just to give some color to the mix thing, that how mix is helping us in the overall margin performance is our sequential gains on premium categories has been pretty strong. We grew 2.6 points of share on premium and 1.8 points of share on workstations. Those are categories which are growing and something which we are pleased that we continue to take share.

And to your other comment around non-hardware business contribution, yes, the attach businesses, which is combination of our peripherals, collaboration solutions, services such as WXP and others, have contributed one-third of the overall PS gross profit. And that's in line with what we have been forecasting, that those are the businesses which we'll continue to focus.

Katherine Murphy

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you. And then I'll attempt to ask if there's any preliminary thoughts on industry PC volumes as we think about fiscal 2027. Thank you very much.

Karen L. Parkhill

Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah. I would say, on FY 2027, obviously, we're still in our planning period. It's premature to give you specifics on our outlook for the fiscal year. And on unit volumes, that continues to move around, so premature for us to talk about that at this point.

Ketan Patel

President-Personal Systems, HP, Inc.

A

I would just only add that there are two demand vectors as you look at 2027. As Karen mentioned previously, a growth catalyst being the shift towards AI workloads and, hence, some of those categories around AI PCs and premium PCs and workstations, so that's going to be tailwind. At the same time, there has been demand delay, or as some of the customers deferred product refresh, given the price increases this year. And as costs start stabilizing over the next period, you will start seeing some of those refreshes coming over a period of time. So, that's how we look at two different demand signals coming through.

Operator: Your next question comes from David Vogt from UBS.

David Vogt

Analyst, UBS Securities LLC

Q

Great. Thanks, guys, for squeezing me in here. So, Karen, I just want to maybe ask a clarifying question about 2027 profitability and margins. Can you help us walk through your comment in greater detail about protecting Print margins? Does that exclude the benefit of the tariff's contract count in 2026? Is that how we should be thinking about your comment in 2027, or is that inclusive of the benefit that you're seeing this year from the tariff refunds?

And if you could help us understand, I jumped on late and I apologize, was the tariff refund largely in Print? I would imagine there's a big chunk in PC also, but I didn't quite hear that in the prepared remarks.

Karen L. Parkhill

Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah. So, just on your question on Print margins for next year when we talk about our long-term 16% to 19% range, that is without or excluding any one-time benefit that we might get from tariff refunds. We did have some benefit from tariff refunds this quarter, and have signaled more next quarter. It does largely benefit Print. There is a smaller portion that benefited PS, but it is largely benefiting Print. And so, you saw our Print margins in Q3 be higher than expectations, driven by that benefit. But once you exclude those benefits, they were largely in line with expectations.

David Vogt

Analyst, UBS Securities LLC

Q

Perfect. That's what we thought. And then maybe just as a quick follow-up. In terms of mix, I think, we were worried about mix to hardware in the quarter. Obviously, supplies are – no, hardware is seasonally stronger relative to supplies. How do we think about the input costs on the hardware side relative to the business, because I know we've talked about in the past the impact of currencies, the impact of commodities like oil? How are you thinking about that in context of when we're thinking about fiscal 2027? I know you don't want to give a guide, but when I think about those moving parts that are a little bit out of your control, how should we think about those contributions to the outlook?

Karen L. Parkhill

Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah. I would just say, in general, in Print, we are going to continue to focus on momentum in our key growth areas and introducing new products in our more traditional Print business. That includes expanding our tank portfolio and driving further traction from a recent rollout of our AI-enabled laser portfolio in office.

And then, in terms of just supplies, we have said, for a long term, that we expect supplies revenue to decline low to mid-single digits in constant currency. This year, in particular in FY 2026, we see a decline in low single digits in constant currency, but our long-term view of supplies hasn't changed.

David Vogt

Analyst, UBS Securities LLC

Q

Perfect. Thank you very much.

Operator: And the next question is Ananda Baruah, Loop Capital.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

Hey, yeah, good afternoon, guys. Thanks a lot. Appreciate you taking the question here. Just going back to what sort of the revenue texture can look like as we go through 2027, do you think it's a situation where corporate is refreshing to higher spec PCs now as a trend such that you guys are seeing higher ASPs, not only because of memory prices, but because it's actually what customers are increasingly wanting? And I guess what I'm trying to get like an anecdotal sense of, is there increasingly a much more – is there more appetite, natural appetite, for

higher pricing [ph] sustained for memories, memory pricing (01:03:06) increases as we go through 2027 into 2028?

Ketan Patel

President-Personal Systems, HP, Inc.

A

Yeah. I'll take that question. Thank you for that. Yes, we definitely see the effect of how customers are choosing those higher configuration products, largely because of the need to conduct AI at the edge to support increasing AI workloads. Customers in their environment are now, as they're implementing AI in their workflows, they are seeing this becoming more prevalent than before.

Also, increasing use of agents, increasing concern about token costs, cybersecurity, privacy, and a lot of applications which requires a different kind of latency needs leading to a PC refresh with more capable PCs having these capabilities. And that's why, to your point, yes, we see demand shifting to those higher-end devices, too, as part of the natural mix.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

And this is a tricky one here. Just a quick follow-up. But are you guys – do you guys yet have visibility to enterprise users adopting AI PCs or talking about AI PCs? You sort of quick touched on it as a way to get off basically get the model off the Internet, right, so they don't have to absorb token costs so they can actually run the native and just avoid the token cost. Is that a meaningful part of conversations yet?

Ketan Patel

President-Personal Systems, HP, Inc.

A

Yes, there are two meaningful conversations which are going on right now as customers bring these workloads. One, this increasing cost of token and how bringing models locally on the edge can help them optimize cost, as well as take care of customer – take care of employee needs of requirements to use different AI models for their work. So, that's definitely one of the conversations. And the second big one is, as they deploy agents more in their environment, how to govern those agents more securely and drive the right level of enterprise manageability. I think those are the top two use cases which we believe are happening as we speak, apart from the industry vertical workflows, which Bruce talked about earlier.

Operator: And, everyone, that does conclude our question-and-answer session. I would like to hand the conference back to Mr. Bruce Broussard for any additional or closing remarks.

Bruce Dale Broussard

Interim Chief Executive Officer & Director, HP, Inc.

Thank you. And thank you, all, for the thoughtful questions and joining us today. You can tell from our voices, we are excited about the future, and AI at the edge creates an incredible opportunities, and HP is well-positioned to lead in this area. As we've talked about, with our strong portfolio, our network reach, trusted brand, we are all equipped to help our customers thrive in the AI era.

And thank you, as always, to our customers, partners and investors for the continued confidence you place in HP, and we look forward to keeping you updated on our progress. And have a good afternoon. Thank you.

Operator: Once again, ladies and gentlemen, this does conclude today's conference. We would like to thank you all for your participation today. You may now disconnect.