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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Fourth Quarter 2026 HP, Inc. Earnings Conference Call. My name is Regina and I will 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 toward 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 Alok Juyal, Global Treasurer and Head of Investor Relations. Please go ahead.

Alok Juyal

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

Good afternoon, everyone, and welcome to HP's fourth 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 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 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's channel inventory refer to the 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'd like to start by saying how pleased we are that Emma Walmsley will be joining us on January 4 as HP's next CEO. Consistent with what the board has been seeking in a new leader, Emma is a proven CEO who has led large global businesses through significant change, and her experience in fresh perspective will serve HP well. We look forward to introducing her on our next earnings call.

Our near-term priorities remain unchanged, strengthening our operating infrastructure, advancing AI at the edge, bringing our solutions together and sharpening our strategic priorities. We're making solid progress across these areas, and I look forward to supporting Emma and the entire HP team as we move forward under our leadership. Today, I'll share our quarterly and full year results, highlight the innovations we're bringing to customers, and outline the actions we're taking to position HP for the future.

Let's start with our results. We delivered fourth quarter revenue of $16 billion, up 9%. Personal Systems led the way and Print performed above our expectations. We are successful on our commitment of executing the plan with discipline while continuing to invest for the future. These results reflect the strength of our portfolio, our innovative pipeline and the focus of our teams. We grew revenue, delivered on EPS, generated strong free cash flow, and advanced key areas of our business, while investing in innovation, expanding our presence in higher value markets, and strengthening the capabilities that will support HP's future.

In Personal Systems, revenue grew 14%, driven by strong performance in Commercial and record revenue in advanced compute solutions. Demand for our AI PCs continued, representing nearly 60% of our shipment this quarter, ahead of our expectations.

We continued strong growth in higher value areas, gaining share in AI PCs, workstations and premium commercial PCs. Workforce solutions continue to gain traction across PS and Print, growing revenue double digits to $5.5 billion for the full year. That said, higher component costs and challenging pricing environment, particularly in Consumer, pressured profitability.

Consumer demand softened in the latter half of the quarter with channel partners reporting slower sales and higher inventory levels. Our immediate focus is to restore channel health and improve profitability. The actions we've initiated will take time to flow through, and Karen will discuss the financial outlook in more detail.

In Print, fourth quarter revenue was $4.3 billion, down 1% but above our expectations. Growth in industrial graphics, subscriptions and tank printers helped offset lower Supplies volume. The hardware market was stronger than expected, and we maintained our number one position while gaining share in home and in developed countries for our office products.

We are progressing well with our focus on profitable unit growth, big tank and increasing customer lifetime value. In the quarter, home tank revenue grew 33%, driven by market strength and share expansion. Industrial graphics grew 9% and reached $2 billion in revenue for the full year. Customers continue to leverage our digital printing solutions to adapt to changing demand and drive business growth.

Turning to our full year performance, revenue was $60.5 billion, up 9.5%. We strengthened our position in important markets and expanded our innovation portfolio. We delivered the EPS outlook we set at the beginning of the fiscal year. While we have more work to do, the progress we've made gives us a strong foundation for which to compete and grow. Karen will provide more detail later in our call.

Turning to innovation, our focus is on helping customers implement and manage AI across their environments. We believe that the future of AI is hybrid, with workloads running both in the cloud and closer to where people work and data is created. In fact, IDC forecast that by 2030, 50% of enterprise AI inference workloads will be processed locally on endpoints or edge nodes. The shift gives customers greater flexibility to balance performance, cost and security. We bring distinct advantages that few others can match.

With 0.5 billion devices around the world, we have deep expertise in how devices perform, how they're secured and how they're managed at scale. Together, with our technology and channel partners, we bring devices, software and services to customers deploying AI closer to where work happens. We are focused on turning that customer value into durable, profitable growth.

Let me share how this is coming to life. In manufacturing, edge AI can identify defects near the production line in real-time without sending sensitive operational data to the cloud. In September, we announced the collaboration with Red Hat and NVIDIA to address use cases like this, where they plan a solution that brings enterprise AI to the ZGX Fury, closer to where customers' operations and data reside. In October, Microsoft and NVIDIA demonstrated Windows running on our device for the first time, another step towards making advanced AI accessible with existing environments.

We are already seeing the value of local AI for customers. A visual effects customer is using our ZGX Nano AI Stations to run AI locally and keep client footage on site, getting to two to three times more work done. For professionals, our ZBook Ultra G3a brings workstation-class performance and local AI in a mobile device, enabling them to run large AI models, multiple agents and demanding applications locally. For creators and developers, our new OmniBook Ultra 16 and OmniBook X 14, powered by NVIDIA RTX Spark, bring personal agents, local AI and advanced creation into highly portable PCs.

Across our Print business, we are also applying AI and automation to help customers reduce manual work and improve productivity. In office print, we expanded our AI-powered print and scan capabilities with AI Precise Scan for SMB customers.

We also introduced a new HP FutureSmart Enterprise release, expanded Guided Redaction capabilities worldwide to help customers better protect sensitive information. In industrial print, we enhanced HP Nio, our AI-powered assistant, to help operators quickly resolve issues and improve productivity. We are also extending automation beyond the press with robotic solutions that help streamline material handling. We also introduced AI capabilities that simplify order intake and production, including the new Latex R530 AI Printer. Together, these innovations help customers reduce manual work and scale their operations.

Making AI useful at work also means making technology easier to manage. Workforce Experience Platform, or WXP, helps IT teams see device and application information across their environment, identify issues and improve the user experience. At the end of Q4, WXP managed 5.5 million devices, up 130% since last year, for over 5,000 customers. AI workflows helped reduce application freezes by 35%, GPU critical events by 47% and BIOS issues by 34%.

Campari Group, a global spirits company, is one example of how our devices and software work together. They've deployed more than 2,000 of our AI PCs and used WXP to help their IT team identify device issues before they disrupt employees. These examples show how our portfolio can help customers deploy and manage AI. Next month at Amplify, our customer and partner conference, we will showcase the next wave of innovations.

Now, let's turn to the operating environment. Throughout the year, we've managed rapidly changing cost dynamics. We've taken decisive action to manage costs, secure supply and respond to shifts in demand, contributing to our FY 2026 performance. At the same time, we've strengthened how we operate. That means better connecting our planning, decision making and execution, becoming more data-driven and responding faster to changing market conditions.

These actions were about more than managing any one quarter. They're about building a stronger foundation for consistent execution and long-term profitable growth. These foundations should benefit HP as we begin a new chapter under Emma's leadership. At the same time, we anticipate the cost and demand environment, particularly for PCs, remain challenging in the near term. With that in mind, we've chosen to take a prudent approach to our overall outlook.

In Personal Systems, we expect demand to remain under pressure in the near term. Over time, we believe the growing need for edge AI and refresh cycles driven by the changing nature of compute workloads will support a return to unit growth. Our immediate priorities are to improve profitability while continuing to strengthen our position in Commercial and higher value categories.

We will also accelerate our edge AI portfolio to help our customers manage their evolving AI needs. In Print, we intend to drive further share gains in big tank through portfolio extensions and targeted promotion, and in office through our highly secured AI-enabled portfolio. We expect continued momentum in our subscription business as we start to ramp our All-In Plan outside the US, and we're focused on extending our leadership in industrial graphics.

We are confident in the opportunities ahead for HP as customers bring AI into their work and daily lives. We are well-positioned to help them, bringing together the devices, software, services and partnerships they need to put AI to work.

I'm proud of what HP has accomplished in the challenging year. There's more work to do, but HP enters this chapter with significant strengths, a global customer base, trusted brand, deep technology expertise, a broad portfolio, and talented teams around the world. Thank you to our employees for all their contributions, and thank you to our customers, partners and investors for their continued trust.

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 fourth quarter results, delivering another quarter of solid performance to close out the fiscal year. Our teams drove continued revenue momentum and execution against our priorities in a dynamic environment. We delivered better than expected top line growth and EPS above the midpoint of our guidance range, even when excluding the benefit of tariff refunds above what we had previously signaled. Across the business, we made progress positioning HP for long-term profitable growth while maintaining financial discipline and returning significant capital to shareholders.

Personal Systems delivered double-digit revenue growth for the fourth consecutive quarter. In line with our strategy, we continued to shift toward premium categories, expand services in attach, and take disciplined pricing actions to address higher input costs. And in Print, we executed well against our priorities, including driving continued momentum in industrial and subscriptions, and gaining share in tank printers. We also took advantage of a hardware market that performed better than expected by placing incremental units that support long-term profitability.

Taking a look at the details in the quarter, we delivered 9% revenue growth, both reported and in constant currency, with solid performance across all regions. In constant currency, revenue increased 10% in the Americas and APJ, and 5% in EMEA, driven by double-digit growth in Personal Systems across all regions.

Our gross margin at 17.5% was down, as expected, with higher component costs and increased contribution from Personal Systems. That said, we drove good operating leverage, with operating expenses down as a percent of revenue, while still enabling important investments in innovation and strategic growth areas. All in, our operating margin was 6.2%.

Below the operating profit line, we drove lower net financing costs, which contributed to better than expected other income and expense in the quarter. Our net earnings per share was $0.83, which includes an estimated $0.15 benefit from tariff refunds received in the quarter. Note that this benefit was $0.07 more than we had signaled on our Q3 earnings call.

Now, let's turn to segment performance. In Personal Systems, we delivered better than expected top line growth, with revenue up 14% from continued strength in Commercial. In line with our strategy, we gained share in premium categories, such as workstations and AI PCs, and increased AI PC penetration to nearly 60% of shipments in the quarter, well ahead of our 50% target.

Advanced compute solutions delivered record quarterly revenue, up over 50% year-over-year, driven by share gains and continued shift to richer configurations through our new generation Z4 and Z8 platforms and ZGX Nano. And hybrid systems grew double digit, fueled by strong performance in video collaboration.

By customer segment, despite lower unit volumes, Commercial revenue grew 23% with stronger pricing and a greater contribution from premium products and services. In Consumer, our performance fell below expectations, declining 7% in what was a more competitive pricing environment amidst continued commodity inflation, declining demand and increasing channel inventory.

Our PS operating margin of 3% was below our long-term range and down sequentially, as previously signaled. And given the challenging environment in Consumer, we proactively took pricing adjustments to address channel health in the quarter, which resulted in a margin below our initial expectation. We continue to expect margin recovery from here and are taking additional actions, including new designs with lower cost and competitive sourcing to drive sequential improvement through next year.

Turning to Print, while lower Supplies volume drove revenue down 1% year-over-year, we delivered strong performance in strategic areas, including consumer subscriptions and 3D, which both grew double-digits and industrial graphics, which grew 9%. Notably, we also drove above seasonal revenue growth of 9% sequentially on share gains in both home and office.

By customer segment, Consumer revenue was down 1% year-over-year, with strong performance in tank printers, offset by market-driven declines in traditional printer volume. In fact, we drove over 30% unit growth in tanks, gaining five points of market share and advancing our strategy in this profit upfront category. Commercial hardware revenue increased 2%, with disciplined pricing despite a modest unit decline, and Supplies revenue declined 3% in constant currency, in line with expectations.

Our Print operating margin was 19.7%, above our target range and up roughly 1 point year-over-year, reflecting the benefit of tariff refunds and disciplined pricing. Without the benefit of refunds, our margin would have been closer to the low end of our range as expected, with a stronger hardware mix and commodity cost headwinds.

Now, let me move to cash flow and capital allocation. We generated $0.9 billion in cash from operations and roughly $0.8 billion in free cash flow in Q4. And as expected, we delivered free cash flow for the fiscal year of

more than $3.3 billion. Importantly, even without the uplift from tariff refunds, we drove strong free cash flow growth for the year.

We returned over $2.3 billion to shareholders for the year through both dividends and share repurchase, including nearly $800 million in Q4 and 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 ratio remains under 2 times and there aren't better return opportunities.

Our results reflect disciplined execution in a challenging environment, which enabled us to meet or exceed our commitments each quarter this past fiscal year, and ultimately deliver full year EPS above the midpoint of the guidance range we laid out at the beginning of the year, all while continuing to invest in innovation.

Looking ahead, we enter FY 2027 with meaningful opportunities across our portfolio. At the same time, our guidance prudently reflects a cost environment that remains challenging, with continued commodity headwinds across both Personal Systems and Print and softer near-term PC demand.

That said, and as we have demonstrated this year, we have a strong track record of actively managing challenges. We will continue to invest in areas that strengthen our long-term position, and as always, remain focused on driving the best possible outcome for our shareholders.

Now, turning to our segment outlook for FY 2027. In Personal Systems, we are aligned with industry experts, projecting the PC unit TAM to decline high-single to low-double digits in calendar year 2027. We expect the revenue TAM to remain roughly flat, though, as pricing and continued shift to more premium devices help offset the unit decline.

Against that backdrop, we expect to continue to gain share in premium categories, including AI PCs and workstations, by capitalizing on the growing shift of AI workloads to the edge and leveraging our industry-leading portfolio designed to meet the needs of users with more demanding workloads.

We also remain focused on increasing attach of higher margin offerings across peripherals and solutions, and we anticipate revenue to be stronger in the second half of the year given both market dynamics and typical seasonality.

Last quarter, I said that Q4 would be a low point in PS margins and that we would improve from there. And as already mentioned, you can continue to expect that from us, with sequential improvement as we move through the year.

We are further optimizing product design and component configurations to drive that improvement, along with a continued focus on premium share gains, expanding higher value attach, and maintaining disciplined pricing and cost management. And as we said before, we expect to be back into our long-term range before the end of the year.

In Print, we expect a low-single digit decrease in the hardware market in calendar 2027, with growth in the tank and industrial markets offsetting declines in traditional hardware. Aligned with industry experts, we anticipate tank printers will represent roughly a third of hardware market shipments at the end of 2027. Within this market environment, we intend to continue gaining share in tanks, driving new product and solution introductions and globally expanding our all-in subscription offering.

We also remain committed to growing share in office with new products and solutions designed for SMB and enterprise customers, reinforcing HP's leadership in manageability, security and AI. And we are focused on strengthening our leadership in industrial graphics, building on the continued shift in the market from analog to digital printing with AI-enabled solutions. We also anticipate Supplies revenue to be down low to mid-single digit in constant currency, within our long-term guidance range.

On operating margins, we expect to be in the lower half of our 16% to 19% range for the year, reflecting inflationary commodities and the near-term impact of placing long-term profitable units. Similar to FY 2026, we expect the Print op rate to be seasonally higher in the first half of the year. And as always, we will continue to focus on strengthening the quality of our installed base while executing with disciplined pricing, mix and cost management.

Beyond the segments, we expect OI&E to be approximately $500 million in FY 2027, up year-over-year on higher net financing costs. For our corporate costs, please note that we will be presenting stock-based compensation expense as GAAP only starting in fiscal 2027, in line with industry practice and consistent with almost all of our peers. You can see more about this in our earnings presentation.

As a result of this move, we expect our FY 2027 non-GAAP effective tax rate to now be 17%. Taking this into account, we expect corporate other to be roughly $500 million in fiscal 2027, with seasonality slightly higher in the first half of the year.

I would note that we anticipate total OpEx to be down year-over-year even when excluding the impact of the change in stock-based compensation, as we continue to drive important cost reduction and still invest in innovation.

We are continuing to advance the AI-enabled transformation plan announced at the end of last year, driving solid progress across our supply chain, go-to-market and customer support organizations. We are modernizing software development and delivery, consolidating platforms, simplifying applications, and using AI to boost developer productivity and deliver better customer experiences faster. And we remain on track to generate approximately $1 billion in gross annualized run rate savings by the end of fiscal year 2028. With all of this, we expect FY 2027 net earnings per share to be in the range of $3.15 to $3.45. Note that we have now received all of the tariff refunds that we have applied for, so our fiscal 2027 outlook assumes no further benefit from refunds.

For Q1, we expect both Print and PS revenue to be below historical seasonality, given the market dynamics discussed. On margin, we expect Print to be near the midpoint of our long-term range, and as mentioned, PS to sequentially improve from Q4. All in, we expect Q1 net earnings per share to be in the range of $0.66 to $0.76.

On free cash flow, we expect to deliver between $2.9 billion and $3.1 billion for the fiscal year. As is typical, we expect the second half to be stronger than the first, consistent with our earnings. And at this point, given the timing of our incentive comp payment and the impact of market-driven PC demand softness on our business mix, we anticipate our Q1 free cash flow to be negative, with marked improvement as we move through the year.

Lastly, we are pleased to announce today that we are raising our quarterly dividend to $0.31 per share. This is the 11th consecutive annual increase since our separation in 2015, and reflects the confidence we and our board have in our long-term outlook ahead.

Turning to Q&A, we've invited Ketan Patel, Head of Personal Systems, to join us.

With that, I'd like to hand it back to the operator and open the call for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator instructions] Our first question will come from the line of Joseph Cardoso with JPMorgan. Please go ahead.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

Hi. Good afternoon and thanks for the question. Maybe for the first one here, I just wanted to touch on the margin. So, it does seem like you are tracking to your prior guidance around troughing around PS margins in 4Q and guiding for a sequential improvement next quarter and through 2027. Can you maybe just touch on how you're thinking about the puts and takes around how we get to the sequential improvements, and what are the right moving pieces there to support it? And then as we think about the long-term PS margin range of 5% to 7%, do you think that's achievable in 2027 itself? And then I do have a follow-up. Thank you.

Karen L. Parkhill
Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah, thanks for the question, Joseph. I'll start by saying we're confident in our ability to drive the sequential improvement in our PS margins as we move through the year. And our plan really incorporates four key actions, but it starts with restoring channel health in Consumer. So as mentioned, we've already taken pricing in Q4 to address this and we expect sequential improvement as a result of that. And secondly, we've been designing and recently launched lower cost products, particularly in Consumer, that will help. We've also – we're also continuing to shape demand around the right configuration to match device capabilities with our customers' workloads. And lastly, we will continue to drive premium product mix and higher value attach.

And I would just say in FY 2026, repricing and richer mix supported good revenue growth but did not fully cover the rapidly rising costs. And as we move to 2027, we expect a greater market contribution from premium categories along with slower cost increases. And I would also add that these environmental factors will also help. But ultimately we do expect our margins to be back in our long-term range before the end of the fiscal year. And I'll ask Ketan to provide some more color, too.

Ketan Patel
President-Personal Systems, HP, Inc.

A

Sure, Karen. Thank you. I'll add few more additional comments. As we just announced, we executed strongly in our Commercial business profitably with 23% of top line growth. And we are very pleased with the progress we are making in winning high-value categories like premium AI PCs and workstations. In fact, as per the recent IDC calendar quarter [ph] three (33:50) results, our premium mix is 69% now, up 19 points and ahead of competitors. And similarly, our AI PC mix is up 20 points, and workstation share also was at 35%. So along with premium, we are also accelerating mix of our non-hardware attach business.

So as we look forward in 2027, market TAM is likely to be stronger in premium categories, which we expect will grow high-single digits, and AI PC penetration is also expected to expand. And we will capitalize on our current performance to improve our share further and expand margins given where we are in quarter four 2026.

And along with the acceleration of premium and non-hardware attach, as Karen mentioned, we are also making very good progress in shaping demand with our Workforce Experience Platform-based insights to match system configuration needs of customers, helping them choose and spend wisely.

And we have work to do on Consumer, as Karen mentioned. We will accelerate promotions to ensure channel inventory comes to the healthy levels in coming months. And apart from promotions on the lower cost products, we launched all new OmniBook 5 in October 2026 at $699, which with an improved cost structure that will help meet customer budgetary needs while helping us grow profitably. So, all these actions gives us confidence that we'll sequentially improve in 2027 from here on.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

No, got it. Makes sense and appreciate all the color there. And then maybe just a follow-up there, you talked about the strength or maybe the resilience in terms of the higher-end PC market, but also at the same time, you're still introducing products to the lower end. Can you maybe just double click there in terms of how you're thinking about potential share loss versus maybe deliberately walking away certain products either by price band or by region? And then there was also a big jump in the AI mix in the quarter. Just wondering if there was any influence around that dynamic there in the sense that maybe the denominator essentially was a bit lower as you kind of maybe walked away from maybe non-AI PCs or some of those undesirable areas of the market. Just curious how you're thinking about that strategy broadly as we go into 2027, just given kind of the overarching market dynamics.

Ketan Patel
President-Personal Systems, HP, Inc.

A

I'll take that. As we narrated, we see that the demand for higher compute workloads is increasing and more resilient buying power is there for those customers. So, that's where the market is shaping demand and we are making sure that we are participating in that profitably, increasing our mix as well as share.

There is also a portion of the market which is mainstream price bands, which is where the competitive landscape and the pricing pressure is higher. That's where we are doing a lot of work around our cost efficiency, both in terms of product design as well as our sourcing strategies, in order to make sure those products turn profitable. And OmniBook 5 launch, which we did in October, is an example of that, and we are also launching a new product called ProBook 4 in November 2026 in those lines. So, this balance of premium and mainstream price band helps us participate in the high-value market and also participate profitably in the mainstream market.

Operator: Our next question will come from the line of David Vogt with UBS. Please go ahead.

Brian Luke
Analyst, UBS Securities LLC

Q

Hi. This is Brian on for David. Thank you for taking the question. So just a big picture one to start with, so with the appointment of a new CEO, taking a step back, how should investors think about the fiscal 2027 guide? Was the incoming CEO involved in the process? And then I have a follow-up. Thank you.

Karen L. Parkhill
Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah, thanks for the question, Brian. I would just start with we mentioned that we're taking a prudent approach on purpose, and that's given the continued commodity headwinds and near-term pressure on PC demand, along with

the start of a new fiscal year and a new CEO coming on board. So, our outlook does reflect the operating environment and also the mitigation actions that we've talked about.

We're excited to have Emma join us soon. I would say as she comes onboard, she's going to be focused on spending time with our teams, customers, partners and also doing a listening tour with investors. And all of this will not only give her a better understanding of HP, but also help as she begins to shape the priorities for the longer term. Hope that helps.

Brian Luke
Analyst, UBS Securities LLC

Q

Got it. That's helpful. Thanks for the color. And just for my follow-up, any update on the Windows 11 refresh? Is that still a benefit that you expect going forward or is it more so customers looking to future-proof their devices for AI and agentic use cases going forward? Thank you.

Karen L. Parkhill
Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah, thanks for the question, Brian. At this point, we do believe that the refresh is mostly behind us. Most of the customers that were going to refresh have done so, and it's in line with how other refreshes have gone. There might be a little bit left in some consumer and SMB customers, but for the most part, it's behind us. So, what we see going forward is really an environment that is very focused on being able to conduct AI at the edge. And you see that with the significant movement that we've got, not just in Commercial, but in the premium segment of Commercial, and with AI PCs and workstations.

Operator: Our next question will come from the line of Katherine Murphy with Goldman Sachs. Please go ahead.

Katherine Murphy
Analyst, Goldman Sachs & Co. LLC

Q

Thank you for the question. I wanted to ask about the strategy of attaching more peripherals and non-hardware solutions, particularly in the Consumer and Commercial portfolio. How much did that contribute to see us – or contribute to the Personal Systems group in the quarter and what's contemplated in the guidance? And anything you could share to help us think about HP's right to win in the software and peripherals category? Thank you very much.

Karen L. Parkhill
Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah, thanks for the question, Katherine. Attach did play a role in our performance so far, but we have plenty of more opportunity ahead to drive even greater attach of these higher premium products and services. We do intend to drive against that opportunity next year, and that is included in our outlook. And I'll ask Ketan if he has anything else to add there.

Ketan Patel
President-Personal Systems, HP, Inc.

A

Yeah, just to give a little more context on our performance on hybrid systems, which has the non-hardware businesses, we grew revenue double digit in Q4, fueled by strong performance in video collaboration, workforce

solutions. They all grew double digits. And overall WXP progress, which Bruce mentioned in his opening remarks, is also showing up into our non-hardware revenue drive.

And we have refreshed our portfolio on Poly recently, which has improved demand, particularly in collaboration business. And we also expanded availability of HP Dimension with Google Beam to six countries and have begun deploying the solution with our first customers bringing immersive 3D video experiences to more workplaces. So, increased high value attach definitely helps in our overall balance of portfolio.

Katherine Murphy
Analyst, Goldman Sachs & Co. LLC

Q

Thank you, both.

Operator: Our next question will come from the line of Wamsi Mohan with Bank of America. Please go ahead.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Yes, thank you for taking my question. Yeah, I'd like to get a little more clarity on two things. One on free cash flow you're guiding. Fiscal 2027 free cash flow, $2.9 billion to $3.1 billion, a bit down from fiscal 2026. Can you just bridge that decline? How much of that comes from earnings versus working cap, commodity purchases, tariff refunds? If you could just flush that out, that'd be helpful. And I have a follow-up.

Karen L. Parkhill
Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah, thanks for the question, Wamsi. So yes, we do expect our 2027 free cash flow to be $2.9 billion to $3.1 billion. And we said that we expect it to be stronger in the second half, and that's really just consistent with our earnings and typical seasonality. We have not included any tariff refunds in this outlook. So these expectations are largely driven by earnings, which do reflect some continued component inflation and pressure on demand with offsets from improving PS profitability as we move through the year. We have planned our CapEx to be roughly flat for the year. And we also intend to drive working capital improvement, particularly through lower inventory levels as we move through the year. I hope that's helpful.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Yeah. No, that is. Thank you. And then just in terms of your assumptions, right, on commodity pricing, it seems as though the market has kind of split expectations around what could happen with parts of the memory market into calendar 2027 and 2028. And just wondering what are you baking in in terms of DRAM and NAND and other commodity price inflation embedded within next year's outlook. And just the – your comment on sort of the backend-loaded earnings profile, as you think about PS margin recovery, should that also be pretty backend-loaded back to that typical range?

Karen L. Parkhill
Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah, thanks for the question. So just starting on commodity costs, we do expect memory and storage costs to continue to increase, but at a lesser rate than what we saw last fiscal year. And you can really see this in some of the external market indicators, too. We also expect CPU costs to increase but not as much as what we've seen with memory and storage, and all of that is baked into our outlook.

On PS margin improvement, again, we do expect sequential improvement. We do expect the actions that we're taking to compound over time. And so, that's why we say that we believe that we'll be back to our long-term range before the end of the fiscal year. Hard to predict the exact amount in each quarter, but again, sequential improvement.

Operator: Our next question will come from the line of David Paige with RBC Capital Markets. Please go ahead.

David Paige
Analyst, RBC Capital Markets LLC

Q

Hi. Thanks for taking my questions and congrats on the good results. I wanted to ask on Personal Systems. You've built like an ecosystem partnership within Personal Systems. So, just curious how much of that flexibility and options you give your customers is helping drive continued growth and supporting ASPs despite a lower unit market? Thank you.

Ketan Patel
President-Personal Systems, HP, Inc.

A

I'll take that. We've been working with various ecosystem partners to, of course, make our solutions come together apart from the products we deliver. And as Bruce mentioned in his opening remarks around how AI at the edge is accelerating, and we are seeing this across different examples, he quoted like Campari with AI PCs – using AI PCs and visual effects studio using our ZGX Nano AI solutions. We also see these partnerships coming stronger in developer category where we are running coding agents on HP workstations and OmniBook Ultra RTX Spark laptops. Several agents here work in parallel on screen with code assembling itself from one shared repository. The agents write and test code locally around the clock with no token meter running, and our own developers are also using similar solutions within HP.

And similarly, in the area of architects, we see those teams are running generative design locally accelerating iterations while keeping decades of proprietary work inside the studio. And we have similar kind of use cases across automotive as well as different sectors. And all of these are coming together through HP's own stack of solution, as well as the third-party ISV, our software ecosystem, which we are combining.

Bruce Dale Broussard
Interim Chief Executive Officer & Director, HP, Inc.

A

I'll just add to the question that you had, is it helping with the ASP, I would say yes. It's allowing us to bring a solution that's integrated together that brings not only the hardware and – whether it's a workstation or AI PC, but it also allows us to bring solutions to these verticals that are needing the solutions such as what Ketan was mentioning about the manufacturing. We see it in healthcare. We see it in other sectors where they're looking for more solutions than just the PC itself.

David Paige
Analyst, RBC Capital Markets LLC

Q

Thanks. That's it for me. I appreciate the color.

Operator: Our next question will come from the line of Erik Woodring with Morgan Stanley. Please go ahead.

Erik W. Woodring
Analyst, Morgan Stanley & Co. LLC

Q

Hey, guys. Thank you very much for taking my questions. Just as we look at fiscal 2027, obviously, Karen, you alluded to the PC unit challenges in your prepared remarks, given where pricing stands. Just how do you think about looking through the year? If there was, let's say, a worser elastic response to pricing, how do you think about raising pricing to try to continue to protect PC profitability versus maybe lowering prices to reaccelerate unit growth at some point? Just trying to understand how you think about that tradeoff, just given where PC pricing stands today relative to history and the need at some point to reaccelerate demand. And then I have a follow-up, please.

Karen L. Parkhill
Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah, thanks for the question, Erik. Clearly, this is a dynamic that we've been managing since the start of this memory cost cycle. And we've been focused on doing all mitigation action that we can before we need to take price increases that can obviously have a negative effect on demand and we want to minimize that. So, we'll continue to do that to work to drive everything that we can and use price as the last lever. But we're also focused on driving market share where we believe that we should be winning, particularly in the premium categories, and on maintaining our margins. So, it's a balancing act. And I think we've been doing it nicely so far as we've been in this cycle.

Erik W. Woodring
Analyst, Morgan Stanley & Co. LLC

Q

Okay. All right. I appreciate that. And then maybe just as a follow-up, just as we focus on the kind of October to January Personal Systems operating margin improvement, can we maybe just simplify, too, how you think your bill and materials will change sequentially versus how you think pricing will change sequentially? Like how do those two variables change sequentially to support expanding Personal Systems operating margin? Thank you.

Karen L. Parkhill
Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah, thanks for the question. Obviously, both are dynamics that are going to play out over time and are difficult to predict by quarter. I do note that at the beginning of last year, we did say that memory and storage costs represented 15% to 18% of the bill of materials at the beginning of the year, and we expected that to double in the year. That did hold true for last year. And by F Q4, our memory and storage was closer to 40% of the bill of materials.

But at this point, we don't plan on providing an updated projection for that, because really, the moderating cost curves and the rapidly evolving PC mix and with new devices and the changing configurations, it just really makes that BOM percentage less useful. But this is a dynamic that we're going to be focused on, managing both to help us drive improvement as we – in our margins as we move through the year.

Operator: Our next question will come from the line of Amit Daryanani from Evercore ISI. Please go ahead.

Caden Dahl
Analyst, Evercore ISI

Q

Hi. This is Caden on for Amit. Just one for me. I guess when you're thinking about your memory procurement, how much is coming from international sources? And do you see room for that to further increase and potentially help optimize your cost structure at all? Thank you.

Karen L. Parkhill
Executive Vice President & Chief Financial Officer, HP, Inc.

A

We are using suppliers from all over the world. We are a global company. And so, we're ensuring that we get the right mix of components that we need at the right prices that we think are competitive. So at this point, we don't split out how much comes from where, but we are global and we do source globally.

Operator: Our next question will come from the line of Krish Sankar with TD Cowen. Please go ahead.

Steven Kinney Chin
Analyst, TD Cowen

Q

Hi. Thanks for taking my questions. This is Steven calling on behalf of Krish. My first question, if I could, on the AI PC mix, as you mentioned, you exited the fiscal year at 60%, but I think last quarter, you had a target for 60% to 70% on average for fiscal 2027. Just kind of curious, does that 60% to 70% for the current fiscal year still apply or do you think there might be a higher blended rate for the year, just given the current momentum?

Karen L. Parkhill
Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah, thanks, Steven. We were pleased with our AI PC performance this past fiscal year and noted that we did reach 60% of our shipments by the end of the fiscal year. We just expect that to continue as we move into next fiscal year. We're not going to set a target but we believe it's going to be above 60% and just continue to rise.

Steven Kinney Chin
Analyst, TD Cowen

Q

Thanks so much. And just as a quick follow-up, in terms of, I guess, memory and storage and also CPU component procurement, just kind of curious like for fiscal 2027, just based on your growth plans, at this point, what is the sort of percentage or amount of expected business for the coming year that's already addressed by any kind of long duration supply agreements? That'd be helpful.

Karen L. Parkhill
Executive Vice President & Chief Financial Officer, HP, Inc.

A

Yeah, at this point, we are confident that we've got all of the components, including memory and storage that we need to meet the demand for next fiscal year.

Operator: Our next question will come from the line of Michael Cadiz with Citigroup. Please go ahead.

Michael Anthony Cadiz
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good afternoon. Just one question for me. I know you touched a little bit on PC refresh earlier in this call, but I wanted to ask, as your AI PC penetration grows, could you give more color, please, about your enterprise customer conversations, their use of AI PCs, whether to run models locally like for pilots or at scale, and whether or not like premium/AI PC have become basically the de facto standard for refreshes or replacements for future proofing? Thanks.

Bruce Dale Broussard A
Interim Chief Executive Officer & Director, HP, Inc.

I'll start and then I'll ask Ketan to add some further. In meeting with our customers, they have three things that are top of mind for them. One is around the token cost, the second is around security, and the third is around latency. And we constantly hear both in the – from the CIO point of view, but also from the CEO and COO. Those areas are very important to them.

And so, what we're seeing is this move to a more hybrid model where they are wanting more and more at the local level, but knowing that they still need to have the access to the cloud. And I think that's one of the reasons why you see AI PCs and our penetration in the AI PCs is as a result of that demand. We're also seeing it in small business, but more in small business, specifically on the workstations and the ability to offer a complete solution as opposed to having to rely on the cloud. Ketan, do you have anything to add?

Ketan Patel A
President-Personal Systems, HP, Inc.

Yeah, I think we are seeing accelerated movement now beyond demonstrations into real customer environments. As Bruce mentioned, there are benefits of local AI are tangible and customers are seeing that. I quoted a couple of examples. Just to quote a few more, in automotive manufacturers, they are processing images for multiple cameras in real time, identifying defects faster and training inspection models locally without any cloud latency. And that's where in that sector they see clear benefit. In defense, we see departments use custom fine-tuned models to run locally for mission operations on the field diagnostics without connectivity of mission operations. And on the security side, security teams are running open source models in-house, detecting threats, keeping sensitive data local and replacing unpredictable cloud usage with more predictable costs. So, we see accelerated deployment now with real use cases in different environment on benefits of local AI.

Michael Anthony Cadiz Q
Analyst, Citigroup Global Markets, Inc.

Thanks. Have a good night.

Operator: Our next question will come from the line of Alek Valero with Loop Capital. Please go ahead.

Alek Valero Q
Equity Research Associate, Loop Capital Markets LLC

Yeah, hi. Thank you for taking my question. My question is, at a recent conference, you said that some of your new memory suppliers are Chinese, and a recent news report also said that you're moving some of your PC builds back to China. So I wanted to ask, do you plan to source more from China in fiscal 2027 and will that help bring down that 40% bill of materials?

Karen L. Parkhill A
Executive Vice President & Chief Financial Officer, HP, Inc.

Yeah, thanks for the question, Alek. We don't expect any material changes in our suppliers right now. We're confident in the suppliers that we have, and we are confident in the supply that we have what we need to fulfill the demand this year.

Alek Valero Q
Equity Research Associate, Loop Capital Markets LLC

Got it. That's helpful. Just a quick follow-up. I think in September, you released an 8-K saying that you expect PC units for calendar 2027 to be down mid-single digits. Do you still see it that way or has anything changed since then?

Karen L. Parkhill

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

A

Yeah, thank you. As part of our outlook this year, we do expect PC – the units, the hardware market to decline low-single digit in – high-single digit, I'm sorry, in this calendar year.

Operator: This concludes our question-and-answer session. I'll hand the call back over to Bruce Broussard for closing comments.

Bruce Dale Broussard

Interim Chief Executive Officer & Director, HP, Inc.

Thank you, operator. And I want to convey what a privilege it's been to lead HP. I'm proud of our teams and confident in the foundation we're handing to Emma. AI at the edge is a majority – is a major opportunity with our portfolio, our partners and trusted brand HP is well-positioned to lead. And thank you to our customers, partners and investors for your continued confidence. For those of you in the US, we wish you a very Happy Thanksgiving and good evening.

Operator: This concludes today's call. Thank you, all, for joining. You may now disconnect.