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HP, Inc. (HPQ)

Analyst Meeting

CORPORATE PARTICIPANTS

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

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

Dave Shull
President-Workforce Solutions, HP, Inc.

Tuan Tran
President-Imaging, Printing & Solutions, HP, Inc.

Alexander K. Cho
President-Personal Systems, HP, Inc.

Marie E Myers
Chief Financial Officer, HP, Inc.

OTHER PARTICIPANTS

Amit Daryanani
Analyst, Evercore ISI

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

Aaron Rakers
Analyst, Wells Fargo Securities LLC

David Vogt
Analyst, UBS Securities LLC

Sidney Ho
Analyst, Deutsche Bank Securities, Inc.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

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

Good afternoon and welcome to our 2023 Securities Analyst Meeting. My name is Orit Keinan-Nahon and I'm the Head of Investor Relation at HP. It is wonderful to be hosting this event in person for the first time since 2019. And for those of you connecting via the webcast, thank you for joining us today.

Before we go to the agenda, let me share two important disclaimers. First, some of the comments and responses to your questions during today's event may include forward-looking statements that are based on our best view of the world and our businesses as we see them today. These statements may also be based on certain assumptions and areas subject to a number of risks and uncertainties that may cause actual results to differ. Many of these risks and uncertainties are described in HP's SEC reports, including our most recent annual reports for Form 10-K and quarterly reports on 10-Q.

We assume no obligation and do not intend to update any such forward-looking statements. Second, certain information presented during today's event may include references to amounts that are expressed on a non-GAAP basis. A reconciliations of these non-GAAP amounts to GAAP and other relevant information is available on our website at investors.hp.com. Additional information about this important disclaimers is available in today's meetings material.

Now, let me turn in today's agenda. We will start with our President and CEO, Enrique Lores, who will talk about HP's strategic priorities and our continued progress as we deliver on our Future-Ready plan. Then you will hear from Dave Shull, President of Workforce Solutions, who will discuss how we're expanding our services businesses. We will then take a short break before welcoming President of Imaging and Printing Solution, Tuan Tran, to talk about how we're evolving our Print business. Next, we will have President of Personal Systems, Alex Cho, who will share the exciting opportunities we have to drive growth across our Personal Systems business. And last, our CFO, Marie Myers. She will talk about our financial performance and our fiscal year 2024 outlook. After a second break, we'll have all speakers re-join on stage for a live Q&A.

Just a reminder, today's meeting is about the forward-looking views for FY 2024 and beyond. We will provide an update about Q4 results when we report earnings in a few weeks. Today's webcast and presentation will be available on HP investor relation webpage as investor.hp.com.

And now, I'm pleased to welcome HP President and CEO, Enrique Lores.

Enrique Lores

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

Thank you, Orit, and thank you all for joining today, both here in Palo Alto, but also online. Before we begin, I want to take a moment to address the horrific attacks over the weekend in Israel. I know this is weighing on many of our minds. It has been heart-breaking to see the shocking level of violence. And as a company, we condemn violence in our communities. Our number one priority is the safety and well-being of our employees and their families throughout the region. I have been in touch with our local teams and thankfully everyone has been safely accounted for. Of course, we will continue doing everything we can to help them through this period. And in addition, the HP Foundation is working with humanitarian organizations to understand where we can offer the greatest assistance to impacted communities. Our world is volatile and complicated right now. And I have made clear to our employees that we will support one another through whatever comes our way, while staying true to our company's values.

Now, it is not an easy pivot, but let me now turn to today's event. As Orit mentioned, this is our first Investor Day at headquarters since 2019. For those of you who have been to this campus before, you probably noticed some changes. Our office spaces has been redesigned for collaboration in a hybrid world and our Customer Welcome Center has been remodelled to showcase the central role our technology is playing in people's lives. I know many of you got to see our latest innovation this morning. And today, we're going to share our plans to continue innovating for our customers, while delivering sustained long-term growth for our business.

Let me start by saying that we are building on a very strong foundation. At our last Investor Meeting in 2021, I outlined some clear priorities. I said we will strengthen our core business with a focus on shifting our mix to higher value segments and expand the new business models. I highlighted our plans to accelerate growth in valuable adjacencies, while driving digital transformation across the company. We committed to delivering on the three-year value creation plan we had set. And I made clear that we would remain adaptable as we navigated a dynamic macro environment, which led us to launch our Future Ready plan last November.

In each of these areas we did what we said we will do. And this track record gives us confidence in our ability to continue improving the performance of the company, even as we manage near-term market pressures. My confidence stems from what I am hearing from our customers, together with our 150,000 channel partners, we serve millions of customers every day. When I talk to them, it is clear their needs are changing at a faster pace than ever. And these changes are creating significant growth opportunities for our business.

Let me talk about some of the biggest opportunities we see. First, we have entered the age of AI. The convergence of highly accessible computing power with massive amounts of data and deep learning will be transformational. It is in the mind of every single CEO I meet and it is a big part of our long-term plan. Specifically, we are driving a company-wide AI strategy focused on three areas; new product categories, new digital services and solutions, and internal productivity. The biggest opportunity we see is with in Personal Systems. The ability to run generative AI applications on a PC will enable personalized experiences, improved latency, provide better security and privacy protections, and reduce costs. And as we begin commercializing AI-enabled devices, we believe the overall PC category growth rate can double over the next three years.

In addition to PC market expansion, we also see AI as a key driver of employee productivity. We have an installed base of more than 350 million endpoints, leveraging data and telemetry to deliver better customer experiences. This number will only grow as we refresh devices and expand our digital services. And our ability to run AI applications on top of these data makes us an indispensable partner to IT customers. Lastly, inside of HP, we are leveraging AI to accelerate our digital transformation, which is enabling new capabilities and unlocking efficiencies.

Our second big opportunity I want to talk about is something we call the era of flexibility. Customer experiences have fundamentally changed during the past few years. People now expect to be able to connect, create, and collaborate from wherever they are. The best example is the rise of hybrid work. Two-thirds of end users have told us they want the flexibility to work from multiple locations. 70% say they want technology that allows them to be seen and heard from wherever they are. I have to tell you, these topics are top priorities for almost every IT executive I meet. Many of them are struggling to keep employees engaged, productive and secure, and they are searching for simplicity.

We believe we can solve these problems better than anyone else. With our combined PS, Print and Poly portfolio, we now have a comprehensive set of hybrid work solutions. And the breadth of our offering across hardware, peripherals and services is a huge advantage for us in the market.

There is one more area of opportunity that I want to highlight, and it goes beyond technology. It is something even more fundamental. And that is trust. HP is one of the world's most trusted brands. This is one of our key strengths as a company. And these days, many of the customers I meet want to know what we are doing in two important areas, security and sustainability. I want to briefly talk about both. When it comes to security, we already offer the world's most secure PCs and printers. We're continuing to expand our endpoint security solutions to help customers protect a growing number of devices across a growing number of locations. We do this by delivering multiple layers of defense from the BIOS, all the way to the cloud.

And as we scale our digital services offerings across PS and Print, security will be a key driver of differentiation and growth. We have a similar opportunity to differentiate HP when it comes to sustainability. We are seeing more customers set sustainability criteria. And this is a catalyst for innovation that is helping us win deals. Last year, more than 60% of our revenue was derived from products and services that meet leading environmental standards and reduce our environmental impact. And we expect that number to grow over time. Our leadership in these areas continues to be widely recognized. Awards like this are building trust in our brand and strengthening our position in the market.

Let me talk now about our Future Ready plan and how it will capitalize on these opportunities. We started to share the plan with you last November. And it is built on three pillars. First and foremost, we are orienting our portfolio around growth, and we are doubling down on innovation, innovative technologies with a big emphasis on AI to unleash a new category of devices, innovative solutions to enable flexibility, simplicity, security and sustainability in a hybrid world, and innovative new business models as we shift more of our offerings to subscriptions and increase our value per customer.

The second pillar is focused on developing the operational capabilities needed to support our growth, while reducing further our structural cost. As part of this work, we are creating a more resilient supply chain, building new go-to-market capabilities and driving the next wave of digital transformation across the company. And the third pillar is focus on our people, as we continue to strengthen our talent and culture to achieve our goals.

I'm going to talk about each of these pillars, and I want to start with our portfolio. Last week, we hosted our first ever HP Imagine event. We gathered media and industry analysts from around the world to unveil a wide range of innovative products and services. Let's take a look.

[Video Presentation] (00:13:25-00:14:02)

It was a terrific event, and our innovation pipeline has never been stronger. We have a market-leading position in our two segments; Personal Systems and Print. In each segment, we have multiple businesses at different stages of growth and profitability, and we manage these businesses to optimize our results based on our unique strengths and the changing needs of our customers. This means we are constantly evaluating return on investment and making explicit decisions about where to invest, reinvest, restructure or exit to maximize growth and value.

Everything we do is geared toward delivering on the long-term financial goals we have shared with you previously. And we remain confident in our plans to deliver 2% to 4% long-term revenue growth, with non-GAAP operating profit growing faster than revenue and non-GAAP EPS growing faster than that. We have said that our growth will not always be linear, given the volatile external environment we have been navigating. But over time, we are confident in our long-term trajectory of our financial performance.

Let me now give some insight into how we think about each part of our portfolio. In Personal Systems, we are projecting a $537 billion addressable market. We expect the category to grow next year and beyond. We have less than 10% of this market today, giving us long runway for growth, and we have a clear strategy to capitalize. It starts with growing profitable share in the commercial PC market, where we have the number one position. We also expect a recovering consumer, given the improvements in channel inventory. And as I mentioned earlier, we see AI as a catalyst that will drive market expansion and refresh.

The progress we are making with each of our silicon and software partners to reimagine the PC is something we are excited to start sharing next year. We also have three adjacent growth opportunities in Personal Systems. Hybrid systems is a growth area where the strength of our portfolio, combined with the assets we acquired from Poly, unlocks new opportunities. Gaming is an extension of our consumer PC business, in a category that is expected to grow 2 times faster than the core PC market. And our expansion into services and software allows us to leverage our goal to meet new customer needs and accelerate growth. Overall, our Personal Systems strategy is designed to drive revenue and operating profit growth. And you will be hearing more from Alex in a little while.

We also have attractive opportunities in Print. Our projected TAM is more than $188 billion. This remains a large and profitable market that we expect will be flat over the next three years. Our Print strategy is focused on growing operating profit dollars, something we have shown we can deliver. In fact, over the last four quarters, we have grown operating profit by approximately $200 million compared to the same period of time and in Q3 of 2019. And we have a clear plan to build on this progress.

Specifically, we intend to gain profitable share in office, an area where we're still under-indexed. We will continue transforming our home business by scaling HP+ and profit-upfront models, which we expect will comprise 80% of our achievements within three years. And just like in PS, our push into services software and AI creates additional opportunities. We're equally focused on leveraging our intellectual property in microfluidics technology to continue unlocking new sources of growth. This work is particularly focused on industrial graphics and 3D, two key growth areas where we have built market-leading positions and believe we can accelerate value creation. Tuan will be sharing a detailed view of our Print strategy shortly.

Alongside all of these, we are driving two company-wide initiatives designed to increase customer lifetime value. One of these initiatives is Workforce Solutions. This is focused on integrating our services offerings across PS and Print for commercial customers. And it represents $182 billion of the projected TAM I just shared. We used to call these Workforce Solutions and Services. We have just shortened the name to simplify our terminology.

The other cross-company initiative is consumer services. This focus on expanding our digital services for consumers based on our success with Instant Ink. And we are very excited about these opportunities. Let me tell you why. Transactional hardware customers typically spend double the cost of the hardware on additional peripherals, supplies and services over the lifetime of their product. And now we have an opportunity to deliver all of that as a subscription. And this creates a better customer experience by enabling flexibility, simplicity and security. The scale of our install base, combined with the power of our customer and partner relationships, will enable us to shift more of our mix to subscriptions. And this will drive recurring revenue with accretive margins over the long term, while making our core portfolio more resilient against cyclical changes of demand. You will be hearing from Dave about our services strategy in a few minutes.

I have now mentioned several key growth areas across PS and Print segments. Collectively, our hybrid systems, gaming, Workflow Solutions, consumer services, industrial graphics and 3D accounted for approximately $10 billion in revenue in fiscal year 2022. As we execute the strategy I just outlined, we expect this number to grow double-digit to at least $15 billion by 2026, with services accounting for at least 30% of the total revenue mix.

Let me talk now about the operational capabilities we are building to support our growth. This is the second pillar of our Future Ready plan, and it is focused on becoming a more resilient, more agile and more digital company. I want to start by talking about what this means from a supply chain perspective. We have entered the next phase of globalization. The effect of the pandemic, combined with new geopolitical dynamics are leading toward a more regionalized global economy. And as countries invest more domestically, it is also opening new opportunities for localized innovation and growth. We have tremendous experience adapting and redesigning our global supply chain. And we are currently expanding our footprint to meet growing customer demand for multi-source production.

In addition to our robust ecosystem in China, we're increasing our capacity at sites in Southeast Asia and North America, where we have long time manufacturing operations. We're also continuing to expand domestic manufacturing in key emerging markets. This is something we have done in Brazil. And we are currently expanding in India, an exciting growth market where we have a clear number one position.

As we evolve our supply chain, we're also building new go-to-market capabilities, with a focus on scaling our services and software businesses. We are doing this in partnership with our channel, which remains a huge source of strength for HP. And all of this is underpinned by an aggressive transformation agenda to significantly reduce our structural costs. I believe there are always opportunities to become more efficient. And we have a relentless focus on removing complexity and capturing savings. As part of this work, we are driving the next phase of our digital transformation. This is being accelerated by AI and will enable us to automate processes and workflows. And we now see greater opportunities to reduce our structural cost that we did a year ago. We now plan to deliver $1.6 billion in gross annual run rate structural savings by the end of fiscal year 2025. This is $200 million above the target we shared last November and Marie is going to share the specifics of that in a little while.

The third pillar of our Future Ready plan is focus on our people. We are building strong talent at all levels of the company, and we are doing this in a way that blends long time HP experience with fresh perspectives from the outside. The diversity you see on our executive team is a great example of that as we have added several strong leaders over the past couple of years to support our strategy. We're also focused on talent development to ensure our teams have the skills needed to deliver on our plan. And we are doing this while doubling down on our purpose-driven culture to deliver on the sustainability and diversity goals we have set. And most importantly, across the business, we are leading with ambition because we see exciting opportunities to drive our next phase of growth. And everything I just described as part of our Future Ready plan supports a clear and compelling investment thesis.

Let me summarize it for you. We have market-leading positions in the PC and Print categories and we are well-positioned to drive profitable growth in our core markets. We have significant opportunities to accelerate in key growth areas where we are currently under-indexed. Collectively, these businesses are accretive to our gross margins and will become a greater percentage of our mix over time. We have world-class operational capabilities to deliver on our targets and we are continuing to drive efficiencies to reduce our structural costs. We are maintaining our shareholder-friendly capital return strategy that's anchored in our commitment to return at least a 100% of free cash flow over time unless opportunities with a higher return on investment arise and as long as our gross leverage ratio remains under 2 times EBITDA. And all of this gives us confidence in our plan to deliver sustained revenue, non-GAAP operating profit, non-GAAP EPS, and free cash flow growth.

I want to end by saying a big thank you, not simply for spending this time with us today, but more importantly for the trust you have placed in HP with your investment. The entire management team and I are focused on creating value for you, and we look forward to sharing our progress as we deliver on our Future Ready plan. Thank you for joining us today.

Now, before we take you through each of our segment, I thought it was important for you to gain a deeper understanding of the two cross-company initiatives I mentioned earlier, Workforce Solutions and Consumer Services. This work is designed to drive higher customer lifetime value and recurring revenue across Personal Systems and Print. And to talk about this, I am pleased to introduce Dave Shull. He is a former CEO of Poly and became President of Workforce Solutions following the close of the transaction. Dave has been a great addition to our leadership team and I would like to welcome him on stage. Dave.

Dave Shull

President-Workforce Solutions, HP, Inc.

Thanks, Enrique. How's everyone doing? Everyone doing well? Good, good, good. Some energy, thanks. I appreciate it. So, I'm delighted to be here at my first Securities Analyst Meeting at HP. I'm excited about the opportunities that we have to build lifelong relationships and to really drive recurring revenue.

Before I take you through our plans, let me introduce myself a bit more. I joined HP from Poly about a year ago because I'm excited about the growth opportunities in front of us. Prior to Poly, I was the CEO of the Weather Channel and TiVo. In my new role as President of Workforce Solutions, I'm applying everything I've learned across technology, digital media, operational transformation, and business development to accelerate HP's growth in services and subscriptions. This is a big area of focus for us across both our commercial and our consumer businesses.

But let me start with commercial. I'm going to walk you through how we are building a Future Ready Workforce Solutions by sharing our vision, the significant market opportunity we have, the unique assets we bring, our progress to date, and probably most importantly, our growth plans for fiscal year 2024 and beyond. It's always important to anchor these conversations and the needs of the customers. And their needs are changing fast and this is driving a lot of demand for HP Workforce Solutions. Every customer I talk to is looking to accelerate their digital transformation, to simplify their operations with AI. They're looking to complete this digital transformation in the uncertain world of hybrid working with employees who want more freedom and flexibility on when and where they work.

Security is a hot topic for all of our customers. Recent IDC data showed that companies are spending more than $200 billion every year on cybersecurity. But very little of that is going to endpoint security, which is so critical for protecting an organization, especially in a world where the employees are working from home or Starbucks. Every IT job is also becoming a climate job. More and more customers are looking for ways to drive true environmental sustainability across their IT ecosystem.

I've had a lot of customer conversations over the past year, and their requests have always been clear. HP, you have the broadest range of gear for employee productivity and collaboration. You have thousands of customers around the world who all have deployed this gear in different environments and industries. Can you please just help us figure out the best way to fix the productivity of my employees? How do I get them to come back to the office to be equally productive at home and in the office? So, our mission is clear. We will empower our customers to make their workforces a force for growth. We are in a unique position to help companies optimize their workforce experience, improving employee productivity in a tangible way by leveraging the AI and telemetry capabilities we're building.

Let me make this real from a customer perspective. I was recently with one of the world's biggest banks and they had a couple of very clear goals they were trying to achieve. They wanted their employees to be able to work from anywhere across all 50 countries and to be productive doing it. They needed better meeting spaces in their offices so people working from multiple locations could connect and collaborate more effectively. And at the end of the day, they wanted one partner that could do it all, configure all the PCs, all the collaboration gear for each employee, ship it to their homes, monitor, manage the devices, fix problems before they arise, and remove any points of digital friction as employees return to the office to collaborate and use conference rooms. And they were looking to us to make it happen. They viewed HP as a one-stop shop to solve their workforce experience challenges.

As Enrique said, our projected Workforce Solutions TAM is $182 billion. This year, Workforce Solutions is about $3.8 billion, leaving a massive opportunity to capture a greater share of this market. We have a strong, credible path to capture this growth. We have an established base of loyal customers and channel partners, we have a broad and differentiated portfolio, and we have made solid progress in this last year shifting to selling our services, software, and solutions. We have a clear strategy to achieve our growth targets. But the building blocks are the three divisions of Workforce Solutions; lifecycle services, managed solutions, and digital services.

Our lifecycle services covers the journey of an employee's productivity equipment, whether it's a PC, printer, or Poly collaboration devices. We look at the entire end-to-end journey from custom configuration at the factory to deployment and logistics, regardless of whether the employees work from home or from the office, the proactive support and security, all the way to ecofriendly upgrades and refreshes. Today, we manage the full lifecycle of millions of HP commercial devices throughout 170 different countries.

Our managed solutions division takes these components of lifecycle services and builds them into a contractual offering, whether a monthly subscription, a three-year lease, or a usage-based pricing model. For example, we can deploy a fleet of printers globally as part of a fully managed solution from maintaining the devices, monitoring the supply usage, and continually moving them around to optimize the deployment. This is an amazing stat. 75% of today's Global 2000 already rely on our contractual offerings for their computing, printing, or collaboration needs. Our digital service division then adds AI-based insights for the workforce, workspace, and workflow solutions that we provide. And I'm going to tell you more about this in a minute because this is core to our strategy going forward.

But first, let me tell you about some of the services and Print workflow solutions our Managed Print clients have already been adopting. A global food company used HP intelligent workflows to expedite the hiring process for 4,000 seasonal workers by improving their data collection and digital searchability for those employees. Another customer, Global Petro Products Services is using our solutions to digitize invoice capture to streamline their accounts payable processes. We're also expanding an endpoint security with HP Wolf Security, which sits under the BIOS layer and that means that we can resolve security problems for our customers' employees, even when the devices are off or stolen. And finally, we're enabling secure remote work experiences for professionals who require high-end computing solutions like automotive engineers, animators, and data scientists through our HP Anyware software.

Together – taken together, all of these offerings give HP a strong competitive advantage and a right to win in this market. We're building upon a very, very strong foundation. We are already the number one player in the commercial PC and print markets. We have a managed services offering in more than 10,000 companies around the world. We provide services directly to many of these accounts, but we also leverage our thousands of services partners and others. We have outfitted more than 200 million – 200 million commercial PCs, printers, and Poly devices with telemetry sensors to provide customers with AI-driven insights into workforce productivity and workspace utilization. The Poly integration, I'm delighted to say, has absolutely supercharged our offerings. In addition to expanding our TAM, Poly brought deep understanding of dynamic workforce personas, AI-based intelligence at the edge, and solution selling capabilities. So, we're leveraging the full strength of our combined portfolio, installed base, and go-to-market to capture growth.

As a result, we are able to provide a more comprehensive set of employee productivity and workspace collaboration offerings than ever before. This is all enabled by a powerful workforce experience platform that we've created for our customers. We recently introduced HP Workforce Central to help IT measure, monitor, and drastically improve employee productivity while simultaneously addressing the biggest frustrations that their employees encounter.

Let me give you a couple very, very specific examples of some of the digital friction points that our customers want to solve. When an employee first joins the company, how long does it take them to set up and be productive? When an employee first goes into an office for the first time, how long does it take them to start a Teams or a Zoom meeting? When a CEO walks into the boardroom, how often does he or she have to call IT on the HDMI connections or reset the cameras? When an employee moves from being an engineer to a people manager in a different country, how long does it take IT to recognize that their "dynamic work persona" has changed and they need new gear to be optimally productive?

Now, these might sound like very basic questions, but they are very, very tangible digital friction points that derail productivity and collaboration. Workforce Central integrates data, insights, monitoring, and management tools across 64 of our services into a single platform across PCs, printers, and Poly collaboration devices. Most importantly, it recommends actions. We're using AI to predict and proactively fix problems before they arise. We are providing CIOs with insights into the effectiveness of their workspaces and tools for optimizing their collaboration spaces for effective meetings. We're adding Gen AI capabilities so that a CIO can simply ask, what changes do I need to make this month to best improve the productivity of my team in Germany? Or as I upgrade my computers in Japan to Windows 11, what changes do I need to make? Workforce Central is already in beta with more than 2,000 customers, and we will launch into all of our managed solutions customers in the next few weeks.

This is just one example. We are seeing encouraging results across Workforce Solutions. The revenue penetration of our core lifecycle services, which includes configuration and warranty services, is up more than 200 basis points over the last year. How have we done this? By simplifying our service offering, eliminating thousands of SKUs, and strengthening the connection with our sales team, and adding dedicated business development resources with our channel partners. We've also expanded our customer base for managed solutions. We've added dozens of accounts this year, including some of the world's largest banks, major government agencies, and healthcare systems. Because the software and services attach rates in these deals are increasing, our profitability is also improving, and we continue to broaden our digital services portfolio. We've expanded our Wolf Security platform so that employees' devices that are lost or stolen can be remotely tracked, traced, and wiped even when they are turned off. There's a lot of customer excitement about this.

Another example is that a remote management service, HP Anyware that I just mentioned, continues to reach new sectors like education. One customer recently used it to rapidly shift to a complete remote learning model for more than a thousand of their students and staff.

Overall, our digital services business has had a very solid growth over the last year. Our sales team is cross-selling workflow optimization software to our Print customers and selling HP Anyware to our advanced workstation customers. I am super encouraged by these early results, but it's always better to go back to the customer. Let me have them share with you a little bit of why they're so excited about where HP is going. Let's roll the video.

[Video Presentation] (00:42:05-00:43:24)

I love the energy from customers. My favorite quote is sometimes HP gets in contact before we're aware that there's a problem. That is the magic of HI, that is the promise that we have here with us.

We are well-positioned for Workforce Solutions growth in fiscal year 2024. There are three key drivers of this growth. Number one, you will see us developing and launching unique AI-based IP around employee productivity.

Number two, we will be launching solutions that extend the life of the employee productivity gear across our Personal Systems, Print, and Poly portfolios. Our brand new Renew Solutions will reduce total cost of ownership for our customers while driving sustainability. We are currently live with customers in India and preparing a launch in France. We have plans to roll out in other geographies in fiscal year 2024. We are expecting rapid expansion of these Renew Solutions since cost savings, government mandates, and rapidly improving refurbishment processes are driving high demand from our customers. This is an accretive business for HP since the unit economics on a refurbished PC are often just as good or even better than for new.

The third driver of our growth is our team. We have a truly amazing group of smart, experienced executives who know our customers, our products, and our partners. And in just the last couple of months, we have further strengthened our team. We've added a world-class SaaS leader who brings more than 20 years of software leadership experience at Alphabet and Amazon. And we also welcomed a managed solutions leader with deep experience at Lenovo and IBM.

Now, alongside our opportunities in Workforce Solutions, we have an equally attractive opportunity in consumer services. Just like on the commercial side, we have a strong foundation upon which to build. Instant Ink is now approaching 13 million subscribers and we expect more than 500,000 of those customers to subscribe to our paper add-on service by the end of the year. We are quickly expanding the territory and distribution channels for both offerings, but that's just the beginning.

In my past life in the media industry, I was constantly managing monthly consumer subscriptions. As I look across HP's consumer portfolio, I see tremendous opportunities for long-term subscription growth. What is the future potential here? It starts with what the customers are telling us. As they pursue their work projects, their home projects, and their own freelance businesses, they want simplicity. They want seamless, frictionless experiences. They want convenience. And of course, they want their data and privacy protected at all times. With an installed base of more than 150 million customers, we have a unique opportunity to meet these needs. As with Workforce Central, we are consolidating dozens of disparate consumer services into a single unified platform, making it easy to buy additional services or gear or to receive AI-driven support.

We plan to build on the success of Instant Ink by cross-selling targeted, value-added services like security, storage, and productivity software, as well as peripherals. And we'll be launching our first Print-as-a-Service offering in early 2024. Tuan is going to talk about that in just a bit here. So, whether it's our consumer or our commercial business, there is a ton of opportunity to shift more of our mix to recurring revenue models. HP has a robust strategic position. We are the number one leader in commercial PCs and printers. We are starting with an installed base of many millions of devices, thousands of corporate customers, and thousands of workspaces already using our managed solutions.

Our expansion into services and software allows us to leverage our core to meet new customer needs and to accelerate growth. We are investing in the team, systems, and sales efforts required for recurring revenue and solutions revenues. And we are ramping up investments in software, AI-based data science, and integrated systems engineering to build the IP around workforce productivity and consumer digital services. The progress we are making is very encouraging. We have a solid plan for execution going forward. Thank you very much for your time.

I'm honored to be working with Enrique as part of this executive team. It is now my pleasure to say we will have a short 15-minute break, and we'll return in a few minutes for an update from Tuan on Printing. Thank you all very much.

Orit Keinan-Nahon

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

Please welcome President, Imaging, Printing & Solutions, Tuan Tran.

Tuan Tran

President-Imaging, Printing & Solutions, HP, Inc.

Good afternoon. Good afternoon. Welcome back from the break. It is great to see so many of you here again today, face-to-face. Hopefully, as you saw in the showcase this morning and what was highlighted in the video, it's been a phenomenal year for innovations in Print. We're very, very proud of the work that the team has done, and we feel like we're exiting this year with our strongest portfolio ever. Please take time to go look at that if you haven't had the opportunity to do so. When we were last together, I shared our plan for driving long term profitable growth for the Print business. In face of what can only be described as a dynamic environment over the last two years, we've made solid progress.

In home printing, I am proud to say we did what we said we would do. Since 2021, we've increased Instant Ink subscribers by roughly 25%. Profit upfront and HP+ enabled printers now represent 60% of our unit shipments, and our share in big tanks is up to 18% worldwide. As a result of these shifts and disciplined pricing and mix management, our hardware average selling prices across Print are up approximately 9% versus two years ago.

In the office, given the industry supply challenges and the overall office environment, frankly, we've not made as much progress as we would like. And our revenue share remains relatively flat. However, we revamped our entire A3 product line and A4 office lineup and designed it for hybrid work. We've also grown our direct MPS install base by almost 10%.

In industrial graphics, we've transformed our business, because labels and packaging now represents over 40% of our revenue mix. And finally, in 3D printing, our focus has been unlocking key verticals. We've grown our install base to more than 1,200 customers. We've increased our printed parts to more than 200 million. And we've expanded the metals this year.

By executing our strategy, we've achieved a more balanced Print business. Even in a smaller market, our operating profit in last four quarters is approximately $200 million higher than the same timeframe in 2019, and we delivered at or above our operating profit range for over the last seven quarters.

Now looking ahead, we see a Print market that is roughly 10% smaller than pre-pandemic levels. But as Enrique says, it's still very, very large market at $188 billion. Besides media, the market is made up of three main segments, each with a slightly different dynamic. The home segment continues its slow decline post-pandemic. However, this market is evolving and consumers are increasingly looking for simple, convenient, no-hassle printing solution. This has driven the growth of our Instant Ink subscription service as well as our big tank systems.

The office segment is very large, roughly $75 billion and is projected to be relatively flat with some pockets of growth. But we believe, as businesses move towards smaller, more distributed offices, there is an increased need for manageability, security and workflow solutions. Dave did a great job in outlining some of those. We believe that this plays to our advantage.

The graphics segment benefited from a shift to local printing and shorter runs. Within graphics, labels and packaging, which is a $17 billion business today, is projected to grow 2 times faster than the overall market. And we believe that as the macroeconomic situation improves, we see potential for unlocking new opportunities and accelerating the adoption of digital technologies.

Now, in the context of a flat market, as you heard from Enrique, our role in Print is to grow operating profit dollars. And I'm sure the question you all have is how do we intend to continue to do that? And as you know, we look at our businesses in two main buckets. Our core Print business and the growth opportunities. In the core, our strategy is to simplify and manage these businesses for profit. In the growth areas, we will invest to capture higher share and we will accelerate the shift from analog to digital. And lastly, we'll continue to aggressively drive our transformation initiatives, especially in the home. We believe that a combination of these efforts will be operating profit accretive over the coming years, create a more efficient and balanced business model and provide for opportunities for growth in the future.

So now let me cover how we're executing this strategy. I'll start with our core home and office businesses. While our home Print business remains highly profitable, we expect it to decline low-to mid-single digits. Our strategy remains consistent to what we outlined with you in 2021, and it's centered around increasing lifetime value of a customer. I want to walk you through the progress we've made and the opportunities still ahead of us. But first, let me walk through the first column, which has the two headwinds that we – I highlighted, pricing and supplies. With respect to the pricing, given the high prices during the pandemic, we had expected some pricing erosion, especially in the home as supplies constraint ease. This dynamic is happening, as anticipated, and we expect some more pricing pressure, especially in the office, as the competitive situation continues to normalize.

Second, we expect supplies to decline in the low- to mid-single digits over the next few years. This is driven by lower usage and our shift to upfront business models offset by the gain in supplies share. Our strategy in supplies has always been to grow share. This means increasing the number of customers who choose HP regional supplies over aftermarket alternatives. I'm happy to say that we've been able to maintain our high inkjet supplies market share and leverage those very same actions to reverse the historical decline in toner share. Now, this is very significant, and we plan to continue this momentum. We do this by simplifying and optimizing our supplies portfolio. We want to drive a sustainably based value proposition, and we want to introduce new technologies that enhance the printing experience.

Now let me talk about the three levers we have to compensate for the headwinds in the home. The first lever is moving more of our business to profit upfront model. We will seek to increase profit upfront models and HP+ enabled unit mix from 60% today to 80% over the next three years. On big tanks, we launched a new portfolio of smart tank printers for both ink and lasers, which delivers a spill proof customer experience with superior HP quality and reliability. With the new portfolio, we've been able to grow our share to 18%, but we have aggressive growth plans to bring it in line with our overall printer share in the future. Let's take a quick look at how we're driving demand for our tank printers.

[Video Presentation] (01:12:13-01:12:46)

As you can see, we're excited to bringing a better customer experience to the tank market. That's what customers expect from the leading printer brand. As a result of all of our business model actions, we reduced our unprofitable customers from 25% in 2019 to 15% today, and our goal is to bring this to less than 10%.

The second lever that we want to talk about is to accelerate Instant Ink. Now, this has been a big year for Instant Ink. We've grown our subscriber base to almost 13 million. We've expanded the range of services, including a paper delivery service and we've enhanced our offerings for small businesses with multiple addresses, multiple printers per account. Instant Ink customers print more. They have higher customer satisfaction and they're extremely loyal. And what we've learned from the success of Instant Ink is that customers want less friction. They want a personalized experience. They want peace of mind. They don't really want to think of all the hassles that often come with printing. They want a simplified printing experience and they're willing to pay a premium for that convenience, which brings me to the next step on our journey and the third lever.

The third time – the last time we met, I shared our plan to extend Instant Ink subscription service to include the hardware. Today, I'm excited to share that starting Q1 of 2024, we'll provide consumers with everything they need for a seamless printing experience, all for one low monthly price starting at $6.99. This will include a printer, the ink delivery service, premium 24/7 support, express exchange and an upgrade option after two years. Of course, all this will be pre-configured at HP, worked out of the box, so nothing to configure at home. We're confident about this offer because we've been trialing it in – with – in the US with 25,000 consumers and the trial exceeded all of our expectations. For example, when the offer positioned side-by-side on hp.com with an identical transactional printer, some interesting things happened. First, over a third of consumers chose the subscription offer. Second, we saw a 30% attach of paper. Third, overall, we saw a double digit incremental total volumes at checkout over the standalone transactional offer. And most importantly, those customers have a higher retention and higher satisfaction than even Instant Ink.

Now we're excited about this because it reaffirms that moving to a service and subscription model gives us the opportunity to better serve our customers and to increase their lifetime value to HP. When we move our transactional customers to a digital relationship, adding supplies and paper, we believe that we can increase the lifetime value by over 20%. When they choose these convenient all-in plans we expect to achieve a lift of roughly 50% or more driven by improved printer mix, 100% supplies connect and support connect and lower churn. We intend to shift more of our install base to subscription and expect to increase the total subscribers across Instant Ink and HP all-in plans by 25% in FY 2026. So that's all exciting.

So now let's shift a little bit to office printing. This is a large market where we are underrepresented. Our strategy here is to continue to grow revenue share. As I mentioned earlier, we believe hybrid work trends favor HP. We refreshed our entire A3 and A4 printers, making them smaller, more modular, easier to manage and highly secure. Our new HP 500 and 600 series printers offer the robustness and functionality of copiers, but have the footprint and cost of an A4 printer.

Combined with award winning A3 portfolio, customers now have a substantial fleet flexibility without having to compromise. On top of all this, our new TerraJet Toner technology is a game changer. Why? Because the new toner cartridges are approximately 30% smaller, 25% faster, they reduce energy use by using less plastic in the cartridge and the packaging. This allows us to deliver higher performing, more sustainable office printers to our customers. And of course, underpinning all of this is our continued leadership in security with the world's most secure printer.

On top of our expansion to the transactional office – in the transactional office business, we see an opportunity to capture meaningful growth in the contractual Print market in the medium term. This is a profitable reoccurring revenue opportunity, and one that we're super excited to go after in collaboration with our Workforce Solutions organization. As they've shared, we're in a stronger position because we can better leverage our investments in delivery, in software, in go-to-market across a broader portfolio of managed services. We are now delivering more compelling solutions with our Workforce Solutions teams such as telemetry and AI-driven remediation. We're moving Print infrastructure, migrating all that to the cloud. We're enabling digital workflows with our customers and our partners.

Now let's switch gears a bit and talk about how our innovations extend beyond the home and office. In industrial graphics, digital printing still represents less than 20% of the market, but it's growing 3 times faster than the traditional analog printing. We're helping companies navigate the shift from analog to digital. For example, HP Indigo Impressions in labels and packaging have grown by over 30% since 2019, while HP's corrugated packaging usage has grown by over 80%. To further accelerate this shift, we've introduced industry leading innovations such as our HP Indigo V12 platform. It is up to 6 times more productive than its predecessor and can replace two or three analog flexo machines. This is helping HP unlock a market segment that is significantly larger than what we've addressed historically.

Now to 3D printing. 3D printing represents an additional $18 billion opportunity and it is expected to grow at 19% per year over the next few years. In this space, our strategy is to disrupt industries with vertical applications using both our polymer technology as well as the new Metal Jet technology. In industrial applications, such as John –

companies such as John Deere and Schneider Electric are leveraging our Metal Jet technology to produce critical valves and filters, which cannot be created using conventional manufacturing methods. In orthotics, 3D printing is helping create a solution of one. For example, we're partnering with clinics to customize applications such as lower limb prosthetics and pediatric cranial helmets. Another example, and one I'm excited to share today is the partnership we've unveiled last week with Brooks Running. The first innovation from this collaboration is the new Brooks Running shoe – I'm going to walk over here, that I'm wearing today. The innovation here is at the midsole lattice design, is designed to optimize energy return for all individuals. It's lighter weight than foam, it's got better energy return and it's more flexible. In the future, you could see customized 3D printed midsoles optimized for your particular running style or your particular sport. We're excited about the future of value creation opportunity in 3D. We have a strong portfolio and we have – and we're building key strategic partnerships in verticals across the globe.

All right. Last but not least, we've announced that we're creating an entirely new Print category. For decades, we've been helping architects print on floor plans on paper. Now we're unlocking the ability for them to print directly onto the construction floor. HP SitePrint delivers a 10x improvement over laying out your plans using chalk. This opens up a $5 billion market opportunity in mature markets for our business. Let's take a look at HP SitePrint in action.

[Video Presentation] (01:22:11-01:23:17)

I love that phrase, will be done in three days versus three weeks. SitePrint is out at over 100 construction sites around the globe. It is – it has already laid out over 1 million square feet. And it is already having a big impact for our customers. So great, great product launch.

In addition the actions that we're taking to minimize the decline in our core and drive new growth, we will continue to work on optimizing our end-to-end cost structure, especially in our mature businesses. We've made great progress over the last two years, but we have more opportunities looking forward. An example is our focus on dramatically simplifying our printer platform. As we shared this past year, we've already optimized our commercial portfolio by sunsetting our ink-based PageWide devices and simplifying our A3 product lines. On the home side, over the next several years, we expect to significantly induce our – reduce our platform positions and optimize our printhead investment as we complete our next generation designs.

In our supplies business, we reduced our ink SKUs by over 25% since fiscal year 2020 and plan to reduce them again by double digits over the next three years. We will continue to consolidate our go-to-market to align with evolving customer needs, support pricing discipline and improve our channel inventory management. The actions I just outlined will result in significant cost savings across R&D, manufacturing, marketing and sales over the next three years. This will help improve our efficiency and profitability and will give us capacity to fund the new investments.

In conclusion, we feel very confident in our ability to deliver operating profit dollar growth for three key reasons. First, while the overall market is flat, there are opportunities that drive more value in our current business models and gain share in market segments where we are underrepresented. Second, with our industry-leading innovation, we are uniquely positioned to unlock markets and drive this analog to digital transformation. And third, we still have significant opportunities to reduce our cost structure and we've demonstrated we know how to execute. I've seen firsthand for decades the power of Print in all of its adverse forms, and I am truly excited about the opportunities that lie ahead for our business.

Thank you for your time today. Now I would like to invite my friend – my good friend, Mr. Alex Cho, to the stage to talk about the exciting plans for the Personal Systems business. Alex?

Alexander K. Cho

President-Personal Systems, HP, Inc.

Thank you, Tuan. It's really great to be back together with you today, and thank you for joining us. Let me just say, this is one of the most exciting times to be in computing. Today, I will share with you how we are building a future-ready Personal Systems business that will deliver long term growth as well as breakthrough digital experiences in an increasingly hybrid world. I have three things I want to cover with you today. First, how we are driving growth in our core business with new AI and premium experiences. Second, how we are accelerating solutions in key growth areas. And third, how we are executing on a future-ready strategy all to enable profitable growth.

As a starting point, let me update you on our progress since we were last together. At our last Securities Analyst Meeting, I shared how we were building a stronger Personal Systems business. And since then, we have delivered on what we said we would do with meaningful and tangible progress. This is demonstrated by advancing our leadership in compute. We have increased our share in premium and regained leaders and remain leaders in the commercial segment. We have created peripherals leadership through our acquisitions of Poly and HyperX, making us a true powerhouse in conferencing and gaming solutions. And we have expanded in digital services. With the integration of Teradici and our expansion of HP security solutions, digital services is now over 10 times larger and part of our broader Workforce Solutions portfolio. We are a much stronger business today, and we have proven we know how to operate in both up and down market conditions, improving market share, expanding growth category revenue, which is up over 50% pre-pandemic and delivering on our operating margin goals.

Over the last three calendar quarters, we have gained more share than everyone else in the industry. And more importantly, given we don't chase share for share sake, we have outpaced the market in high-value categories. We have momentum. And we've done that while focusing on our structural savings and other productivity initiatives.

In fact, if you take a longer term view of where we have been in Personal Systems over the last four quarters, we are delivering more operating profit dollars and expanded our rate 80 basis points compared to the same period ending in Q3 of 2019. All of this positions us well as the market turns. And this is exactly what we anticipate.

The market is stabilizing and starting to improve. We expect an upcoming refresh cycle for people who purchased PCs during the pandemic. And this is especially true in the Commercial segment where we are seeing one of the largest installed bases in history, which is favorable for us because we are the number one player in Commercial notebooks.

As a result, we expect the PC industry to return to growth and compute and across all Personal Systems categories including Peripherals and Services. More generally, this category is prime for long term growth, driven by favorable structural market trends, hybrid work and learning as well as AI are secular tailwinds that will continue to drive the need for more compute and more immersive digital experiences. This will drive demand for richer configurations and additional Peripherals and Services.

The gaming category is expected to accelerate with a growing number of gamers spending more time playing and expanding into activities such as streaming and making more social connections with others. These trends are making computing and the PC more relevant, more essential, and increasing the value of the market and our long-term growth opportunities, especially as the trends play to our strengths. And this is why the Personal Systems market is a large and attractive sector and we expect it to grow.

By 2026, we anticipate our total addressable market to increase to over $0.5 trillion. We have plenty of upside opportunities without even factoring the upside AI will enable on top of that. And let me address that now. The AI opportunity we have in front of us is going to be an accelerator for our category even beyond this. Current industry estimates put AI PC penetration at an estimated 40% to 50%, with estimated higher ASPs ranging from 5% to 10%. This alone would double the current category growth through 2026, and we are only at the beginning of this journey.

Personal Systems is an exciting market and we are doubling down on our winning strategy. Again, we're driving three priorities. First, we will drive growth in our core by continuing to shift our mix to high-value categories and capitalize on the opportunity of new AI devices. Second, we will accelerate our growth categories by delivering solutions, which provide higher lifetime customer value. And third, we will scale transformation to improve profitability and enable sustained profitable growth.

Now, let me start by building on the topic of AI. AI will be transformational for computing, because it changes what computing will do for people and how computing will need to change to enable it. Let's take a closer look.

[Video Presentation] (01:32:01-01:33:16)

AI is not just a future opportunity for us, but something we are already benefiting from. By enabling the creation and training of these new machine learning and AI models through our Data Science Solutions. Today, we have the world's most advanced Data Science Workstation with a solution stack that helps data scientists set up and configure their environments faster and more efficiently.

We are leading the market with customers like Hendrick Motorsports, a race car company that uses our solutions and have been able to achieve 40% to 50% performance improvements in the time required in their wind tunnel simulation training. This is the level of improvement, our Data Science Solutions are delivering in the market.

And last week, we announced a more specialized AI Workstation Solutions that simplifies building and customizing private generative AI and large language models and applications. We're collaborating with NVIDIA to be the first to offer dedicated Workstation Solutions with their AI Enterprise Software platform. And we announced HP's platform as well, setting a new standard for workflow collaboration.

This platform empowers data scientists and AI developers to work together on shared projects across local and cloud environments. This is important, because every company is investing in developing their own internal AI models to identify productivity opportunities. So we're bullish on the value these solutions provide for the market going forward. Our data science efforts are a great proof-point of how HP is capitalizing on AI today.

And then there is AI on the PC. We are already delivering industry leading AI enhancements with our audio, video and battery innovations on our PCs. But this is only the beginning of a wave of increasing innovation because of the unique value the endpoint provides in delivering AI experiences. Just like how the Internet fundamentally changed what we could do with our PC, which drove the need for new PC capabilities and market growth, generative AI will dramatically change what an end computing device can do, driving the need for new capabilities in our PCs and driving additional market growth.

This is a significant category opportunity where the PC will play a critical role in experiencing and delivering these benefits, leveraging the cloud and increasingly local inferencing. The power of local inferencing on the PC is that these AI applications will respond faster, keep personal data private and secure and will also be more cost efficient. And even more it will make the experience more adapted to you making the PC easier to use and be more productive.

Let me share some tangible examples of what the future holds. We are already witnessing large language models that promise to enhance productivity in the workplace significantly. But these use cases will be most impactful when you integrate with your own company data. Imagine when all product managers can quickly analyze vast volumes of public and internal data for customer insights, conduct financial assessments using confidential data and create presentations. All of this will be done in less time and more comprehensively than before with AI running locally.

And let's talk about speed and responsiveness with local inferencing, with gaming as a great example, imagine playing a basketball video game where your teammates are not just generic characters, but are drawn from your digital social interactions. Their in-game exclamations are pulled from your email and chat conversations shaping how they speak.

The game adapts its difficulty level and provides live coaching based on your real-time performance. Additionally, you can build customized replays enhanced with stable diffusion models. This is a new era of immersive gaming, a highly personalized experience that relies on the speed of local inferencing to deliver real-time and dynamic entertainment.

And lastly, one of the largest topics around AI models is the cost of enabling them. As the AI software ecosystem continues to deliver new experiences, they will increasingly work to leverage local inferencing for the cost advantage. Today, leading software vendors are developing applications that harness local AI processing capabilities. Some examples include Adobe Premiere Pro for graphics, Audacity for audio editing, Microsoft Teams and Zoom for collaboration and Microsoft Office for Productivity. This is an exciting growth area.

Building on our engineering strengths, both for local inferencing and hybrid computing, we will also leverage our platform security, which delivers the world's most secure PCs today and for a more secure AI experience in the future, we will leverage that technology as well. And beyond AI, we are executing on multiple fronts to capture more value in core computing, by ramping up progress, we have made gaining share in the more valuable PC categories. We are doing this by delivering new premium PC categories and form factors.

You can expect us to keep raising the bar with industry first and best experiences. Just last week, we showcased two new breakthrough innovations the world's smallest and thinnest 17-inch foldable PC and the world's only portable all-in-one. We are also scaling the most meaningful experiences for our customers that drive PC refresh, collaboration features being a top one. This year alone, 100% of our premium commercial notebooks and mobile workstations have the most advanced audio and video experiences on them. And in the future, we will take it to the next level by integrating Poly's high fidelity audio technology into our PCs.

And additionally, we will continue to lead in security, manageability and sustainability, which remains a growing priority for our customers. We are the world's most secure and manageable PCs and the world's most sustainable PC portfolio. Our focus on delivering premium experiences is paying off. They provide meaningful value for our customers and deliver higher margins for HP. Since, we were last together, we have grown our mix of high-value compute categories by 6 percentage points, and we will continue expanding.

The second part of our strategy is accelerating in growth categories. And let me start with hybrid systems, which is a significant long-term tailwind in our category. This is large and this is a large opportunity, because out of the 90 million meeting spaces out there, less than 15% are equipped with the right video conferencing technology. We lead in conferencing and collaboration systems and are positioned well to further accelerate. We are leading the industry with the world's most comprehensive set of commercial video conferencing devices for hybrid work with an exciting roadmap ahead.

We announced last week that we are expanding our Poly room solutions, integrating high-fidelity cameras and PC computing to both large rooms as well as smaller huddle rooms. We are uniquely positioned to deliver integrated room solutions with PCs. And we are raising the bar in delivering exceptional industry experiences with a combination of world-class hardware and software and increasingly leveraging the power of AI. For example, we are designing solutions that allow everyone to show up better on video and enable better meeting equity. We call it our best face forward experience.

This is an AI-powered platform that tracks multiple speakers in larger rooms and presents them in separate, up close frames, providing a far better experience for remote participants. And in the future, this solution will be extended to leverage additional cameras we place around the room in the center of room, and also leveraging cameras in HP PCs.

We also have a broad global network of partners, which is a huge competitive advantage. By leveraging this, we have been able to increase access of Poly Solutions to thousands of HP partners worldwide. And we are making rooms available as a service this year so that our Workforce Solutions partner network can provide comprehensive management, monitoring and security solutions. Again, we are uniquely positioned in the market with assets across PCs, room systems and services to capitalize on the changes in how people work from home, in the office and anywhere in between.

Gaming is another high-growth category, where we are extending our leadership. By leveraging the assets of our PCs, peripherals and software capabilities. This is an attractive category expected to grow 2 times that of the core compute market. HP's portfolio, which includes brands like OMEN and HyperX, enables us to offer both integrated solutions across gaming PCs and peripherals and also go after the broader market opportunity by designing HyperX peripherals to work across the gaming PC and larger console ecosystem.

We are laser-focused on delivering the best experience for gamers with performance and seamless connectivity being the most critical. And our OMEN gaming system together with our gaming software delivers the industry's best in performance. We are also designing gaming PCs and headsets to come pre-paired, ensuring they work together effortlessly straight out of the box. This is an important proof-point of the type of simplicity and reduction in friction that we can deliver in our solutions. And we are gaining traction. We are up 3.2 points of share over the past two years in branded gaming PCs.

Also you heard from Dave earlier about the focus on Workforce Solutions across HP. This is an important growth area for Personal Systems. In fact, we have made a lot of progress since we last met. We have grown our services total contract value by over 75% in the Commercial space. And to enable this growth, we are designing our portfolio to be more serviceable remotely as well as locally.

This means improving the ability of our devices to be monitored, managed and fixed remotely, as well as improving modularity for faster on-site repair times. We are also investing in and accelerating our security offering. We now have a 150 million systems with HP's embedded security controller with zero reported persistent firmware breaches. Renewals of our Enterprise Security, digital services subscriptions is at an impressive 98%.

These are important growth areas across hybrid systems, gaming solutions and services as they deliver higher customer lifetime value and continue to be an increasing part of our portfolio mix. In fact, since our last Securities Analyst Meeting, we've grown the mix of these categories by 6 percentage points.

So let me now get to the third part of our strategy. We are scaling our structural transformation across Personal Systems. Our simplification initiatives have decreased complexity in our platforms and increased component leverage. It results in improved cost and greater operational efficiency. As shared during our last earnings. We are on track to deliver platforms and unique commodities and to reduce them by a third at the end of fiscal year 2024.

So how does this benefit us? Take laptop panels as one example. As we standardize components and scale up common parts, it allows us to continue to improve our forecast accuracy, enhance supply flexibility and drive more volume on fewer SKUs enabling cost efficiencies. We are also improving how we execute with our channel partners, a key asset for HP, our unique award winning global HP Amplify Partner Program leverages data and analytics to drive more rigorous end-to-end planning while boosting profitability. And this is enhancing our ability to drive the right offer and the right mix with improved attach rates through our large channel network.

Finally, we are building an adaptable supply chain by refining processes, tools and demand-supply planning. Our focus is on digital procurement and it's expected to improve product availability and reduce fulfilment time. And we are developing an optimized multi-factory fulfilment model that will enable greater efficiency and supply chain resiliency. Overall, our progress to-date is showing up in enhanced service levels and cost structure improvements as I shared upfront. This is an important part of our strategy and we will continue to scale it.

So in closing, Personal Systems is operating in an exciting, large and growing market, where computing is only becoming more relevant and in that, we are well-positioned as we head into the future, especially as the market trends play to our strengths. We are creating a stronger future-ready Personal Systems business. And again, we're doing that, because we're going to continue to drive, share in high-value categories and capitalize on how AI will catalyze future growth in computing.

Second, we are accelerating in our growth areas of hybrid systems, gaming and services. And third, we will continue to be an execution machine driving aggressive transformation to drive efficiency. All of this sets us up well for the future. And as you can see, we have a clear plan to accelerate and win. We're very excited about this opportunity. Thank you for joining us today.

Now, let me hand it over to Marie Myers, Chief Financial Officer, who will walk you through the Future Ready financial plans. Marie?

Marie E Myers

Chief Financial Officer, HP, Inc.

Well, hello, everyone and thank you for joining us. I must say, it's a pleasure to see you all in person. Before we get started, Enrique gave me permission to tell one joke. So guys, I've got – I know many of you are waiting for the model. I've got some good news and some bad news. The good news is Enrique already gave you a teaser, so I think some of you saw those growth numbers earlier. The bad news is I've got the mic, the door is shut you're going to have to wait 20 minutes, so let's get the story started. For those of you here at our – last time – we've made great progress since we last met. And I'm absolutely pleased to share with you today the many exciting opportunities that lie ahead.

Despite the macroeconomic challenges that we've faced over the last two years, we continue to make progress on our strategy. The resiliency of our teams and our business has really solidified HP's global leadership position. And at the same time, we are capitalizing on new growth opportunities.

Now, I would like to discuss with you how this translates into our financial model and future performance, both in the near term and the long term. Let me begin by repackaging the progress we made since our last Investor Meeting. Since we met in 2021, we closed our value plan at the end of FY 2022 and over delivered on all of our original targets. We exceeded non-GAAP operating profit, non-GAAP EPS, cumulative free cash flow and cumulative shareholder returns targets. These results reflect more than $1.3 billion in gross annualized run rate savings well beyond our original fiscal year end 2022 target.

Capitalizing on this momentum and responding to an increasingly uncertain macroeconomic environment, last year, we launched our Future Ready plan, two pillars of which are to orient our portfolio around growth and innovation and to develop the operational capabilities to support our growth while further reducing structural costs. The resiliency of our operating margins in recent quarters despite extraordinary pressures, demonstrates the success of this disciplined approach so far this year.

Let me provide a deeper dive by business unit on our progress thus far. While Personal Systems has been significantly impacted by macro and industry headwinds, we continue to execute successfully on the factors within our control. Not only have we managed costs well, but we've also gained share in both Consumer and Commercial markets while staying focused on driving profitable share in higher value categories.

In calendar Q2 2023, HP is now number one in Commercial PCs and number one in Consumer when excluding the China market with a post-pandemic economic recovery remains challenging. And all of this has helped us deliver operating profit margin performance within our target range of 5% to 7%. In fact, taking a longer-term view over the last four reported quarters, we increased our segment operating profit margin by 0.8 points and our operating profit dollars by more than $200 million compared to the same time period ending in Q3 of 2019. More broadly, we are seeing signs of stabilization in the broader PC market.

Although demand is uncertain and pricing remains pressured, we are benefiting from a seasonally stronger second half of the year consistent with our full year outlook. And in Print, as Tuan said, we remain the number one worldwide industry leader in a very competitive print industry. We continue to navigate a challenging and competitive market. And our Print supplies revenue has declined in line with our expectations of a low to mid-single-digit rate driven by installed base and usage declines, offset partially by share gains and favorable pricing.

We continue to deliver Print operating margins above the end of our target range of 16% to 18%. This reflects the benefit of favorable mix, disciplined cost management, structural cost savings due to the key initiatives in our Future Ready plan. And we are leveraging our strength across Personal Systems and Print to expand in our key growth areas.

The acquisition of Poly, as you heard from Dave, has fast tracked our hybrid workforce solution strategy. And by integrating this asset, we increase the scale and strength of a hybrid work portfolio.

We also continue to invest organically in our key growth areas, which, as you heard from Enrique, we expect these will represent nearly 20% of our total revenue this year, compared to approximately 16% in fiscal year 2022. These businesses continue to grow faster than our core businesses with accretive margins in the long term.

While FY 2023 has been challenging, we are very proud of HP's long-standing track record of executing across market cycles and delivering profitable growth. Comparing our last four quarters with the financial results with a trailing four quarters ended Q3 2019, despite a $4 billion decline in our topline, we still grew non-GAAP operating profit by $192 million, expanding our consolidated non-GAAP operating profit margin by 0.9 points and increased a non-GAAP EPS by 47%. And we have made substantial progress in shifting the composition of our business. As you've heard today, we have diversified our portfolio further by investing in attractive growth areas, shifting our mix to higher value segments, expanding to new business models to accelerate in key valuable adjacencies and capitalize on growth areas.

Now I will turn to our Future Ready transformation. I want to focus now on our strategy to improve the cost structure and enhance our margin performance. We've successfully built on the foundation we established under our value plan, and are making great progress to further reduce costs and improve profitability. Given the significant opportunities we see across our digital operational and portfolio initiatives in COGS and OpEx, we are both increasing and accelerating Future Ready goals.

As Enrique mentioned earlier today, we believe we could exceed our initial three year annual growth, structural run rate cost savings target. That's a mouthful, which we are raising by $200 million to $1.6 billion by the end of FY 2025 without any incremental charges. These structural savings will be a key lever to offset macro headwinds in the core, improve non-GAAP operating profit, support our business segment, margin target ranges and protect the investments necessary to position us well for long-term sustainable growth. And in terms of future-ready cost structures, our restructuring costs, we expect total charges of approximately $550 million in FY 2023 consistent with our initial guidance. This includes approximately $100 million of non-cash charges, driven primarily by our early employee retirement exits.

Looking to FY 2024, we expect approximately $300 million in charges related to workforce-related impacts. Like many companies, HP is embracing AI to accelerate digital transformation and drive operational efficiencies. AI and machine learning have been used in different parts of the company for some time. And we are accelerating our generative AI capabilities and developments this year through dozens of use cases where we see sizable opportunities. And in Print, as you heard from Tuan, we are driving efficiencies to enable a future-ready cost structure by significantly improving our fixed cost structure and reducing OpEx, particularly in our home print business. Overall, we are proud of the progress we've made against our objectives and are already seeing meaningful contributions to segment operating profit margins in our results.

Now I would like to switch gears to discuss our long-term financial outlook. First on revenues, we expect Personal Systems to grow at least in line with the relevant broader market, driven partially by profitable market share gains. We expect Print to grow in line with the print market. We expect total company revenue in the 2% to 4% range from FY 2023 levels. We expect growth will be driven by both our core and growth businesses, and we expect our growth businesses will represent a larger share of revenue and operating profit longer term.

Our outlook assumes a gradual market recovery, with the Personal Systems market growing by a CAGR of 4.4% through calendar year 2026, with improvement in Personal Systems growth attributable to the PC refresh cycle driven by the aged installed base of Windows 10 end of life upgrades, the continued trends in hybrid work and the adoption of AI. In terms of profitability, we expect Personal Systems long-term operating margin to remain in the 5% to 7% range. We believe margins will benefit from both unit growth, mix improvement as the market recovers and as tailwinds from hybrid work and AI begin to accelerate.

While the Print market is likely to remain flat, we see positive trends in our business that should help offset headwinds impacting our core business. We continue to make good progress on rebalancing print profitability towards hardware. In addition, we are encouraged by the traction we've seen in our subscription and services offerings along with the expected recovery in our industrial business. Similarly, we continue to drive innovation in the core. And most recently announced SitePrint, which is a great example of an emerging print business.

We are expanding our long-term operating margin range from 16% to 18% to 16% to 19%. And this reflects our confidence in that business segment. Along with the cost savings of our Future Ready plan, we are confident we will be able to manage the headwinds in this business and deliver operating margins in our new target range.

On a consolidated basis, we expect non-GAAP operating profit dollars to grow low to mid-single digits. We expect EPS to grow high-single digits, driven partially by non-GAAP operating profit growth and partially by share repurchases. We also expect free cash flow in the long term to grow in line with net earnings.

We have said that our growth will not always be linear, given the volatile external environment we have been navigating. But over time, we are confident in the long-term outlook for our financial performance. Since we last met, we have been advancing our strategy around our growth businesses and are making good progress. Our growth businesses span, as you've heard today, both Personal Systems and Print segments, and they now comprise a larger part of our portfolio in both revenue and operating profit due to their faster growth. We expect revenue to grow at a double-digit rate over the next three years to at least $15 billion. Collectively, we expect they will exceed in margin delivery for HP, instilling confidence at our long-term operating profit margin ranges of both businesses. And as we continue to shift our business model in this direction, we expect services, software and subscriptions will continue and constitute in excess of 30% of our growth areas revenue by fiscal year 2026.

Turning to free cash flow. These targets align with our focus to deliver strong free cash flow growth over the long term, supported by three primary drivers. First, our cash flow is supported by profitable revenue growth in our core business, augmented by growth in our key growth areas. Second, our capital intensity is only about 1% of revenues. Growing the business requires minimal CapEx, enabling us to generate attractive returns on invested capital and maximize shareholder value. Third, bear in mind that we have a negative cash conversion cycle in the Personal Systems business that can impact working capital contributions.

Strong cash flow generation enables us to return capital to shareholders over time. Since separation, we have returned more than 100% of our free cash flow through share repurchases dividends including more than doubling our annual dividend per share for $0.50 to $1.05. Our free cash flow generation funds our disciplined capital allocation strategy. Our priorities are clear and unchanged. Over time, we expect to return 100% of our free cash flow to shareholders in the form of dividends and share repurchases. As long as our debt to EBITDA ratio remains under 2 and unless higher ROI opportunities arise, such as strategic acquisitions.

We are reinvesting to grow our business, to drive top line growth, to take advantage of incremental operating leverage, we are creating to drive both non-GAAP operating profit and free cash flow growth. That being said, our growth strategy longer term includes acquisitions, partnerships and potentially divestitures.

We believe we have the right asset portfolio to compete successfully. But if there are inorganic opportunities to accelerate our market position, we will consider them over time. At present, however, we remain fully focused on integrating Poly.

Regarding our dividend, our board has approved raising our annual dividend by 5% to approximately $1.10, reflecting the confidence in our long-term outlook for the business.

Now, let me turn to capital structure, which is underpinned by our strong balance sheet and our commitment to maintain an investment grade credit rating. As I've said many times, that investment grade credit rating is important, because it supports the growth of our services business and provides financial flexibility through different economic cycles. Consistent with that rating, Our target leverage range remains 1.5 to 2 times gross debt to EBITDA.

Shifting to FY 2024, our outlook for GAAP EPS is $2.75 to $3.15, and our non-GAAP EPS outlook is $3.25 to $3.65. There is a range of scenarios based on a number of key assumptions driven by macro uncertainties underlying our FY 2024 outlook. The high end of our EPS range assumes an improved macro, while the lower end reflects a much more challenged demand environment. Our baseline scenario assumes that the market will stabilize at FY 2024 and underlying that outlook for Personal Systems is for revenues to grow in line with the personal systems market and for print revenue to grow in line with the Print market. From a seasonality perspective, we expect end user demand and therefore revenue in 2024 will be stronger in the second half than the first. We expect non-GAAP total operating expenses as a percent of revenue to continue to be in the 13% range similar to FY 2023 as we continue to execute on our Future Ready initiatives to further optimize our cost structure.

For the full year, we expect operating margins for both Personal Systems and print to be solidly within their respective target ranges. We expect non-GAAP OI&E expense of approximately $700 million due to lower debt levels and less factoring expense and for corporate other to remain relatively flat due to higher incentive compensation. We plan to continue to manage costs and pricing in this dynamic and uncertain environment.

The non-GAAP tax rate remains consistent at 16%, assuming the current corporate tax structure.

Bridging our FY 2023 to FY 2024 non-GAAP EPS outlook, we start with the $3.29 midpoint of our FY 2023 outlook. We expect Personal Systems and Print to contribute $0 to $0.25 EPS growth year-over-year. As revenue growth, profitability and our leverage improves, we expect to return approximately 100% of our free cash flow to shareholders next year, particularly as we believe our shares are significantly undervalued. As a result, we expect share repurchases partially offset by OI&E and corporate other to contribute the remaining $0.02 to $0.05. We expect free cash flow in FY 2024 of $3.1 billion to $3.6 billion. We anticipate that year-over-year growth will be driven by a higher net earnings and working capital contributions, including significantly reducing owned inventory levels operationally.

Capital expenditures are expected to be about $700 million, up about $100 million year-over-year as we continue to invest for growth. As the macro environment recovers in 2024, we are confident in our ability to further improve our results. We expect to do this in part by maintaining a strong balance sheet with investment grade credit rating, which ensures financial flexibility in volatile markets.

In closing, we believe HP continues to be an exciting and compelling investment opportunity. We have a winning portfolio with attractive opportunities across our core markets and adjacencies that positions us to take advantage of positive global secular trends. Our core business sits at the heart of hybrids and benefits from a growing TAM. And we are expanding into adjacencies and accelerating growth of digital services and solutions as well as our subscription businesses. Our financial outlook is coupled with a disciplined capital allocation strategy, a strong balance sheet, all enabling us to deliver outstanding capital returns.

Finally, I'm excited about the opportunities in front of us. The world is changing in ways that align with our strategy and play directly to our strengths. The rise of AI introduces new and exciting opportunities with commercial launches in the back half of 2024, ramping through 2025 and contributing more significantly in 2026. Customers clearly value flexibility, which creates considerable opportunities for our diverse portfolio of products and services and aligns with our hybrid strategy, while the search for simplicity is creating a growing need for digital services and subscriptions.

The importance of trust plays to our strengths and demonstrated leadership that we have in providing secure and sustainable solutions to our customers and our global scale, supply chain and go-to-market ecosystem has us well-equipped for the next phase of globalization. I am incredibly proud of what our team has accomplished and the resilience that we have demonstrated in this very challenging environment. I'm optimistic about HP's future and I look forward to continuing our discussions today.

Thank you again for joining us. We greatly appreciate your time and support. Thank you.

Operator

We're now going to a break. We'll be back in 15 minutes.

Orit Keinan-Nahon

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

Good to go? Yeah, okay. We're getting ready here, getting up for our next session, which will be open for your questions. So we have here on my team, we have Rodrigo here on the left side, you have Liz here on the right side. They're going to have the mic, the microphone with them. You can raise your hand if you have a question and we'll give you the microphone and we'll try – I mean, we're asking you to limit your question to one so that we give also opportunity for people online to ask questions. So if you're virtually on the line, there's an open chat, you can submit your question. And I have here the screen that I'll be able to read your question as you submit it and the team is going to show it here. Okay?

QUESTION AND ANSWER SECTION

Orit Keinan-Nahon A
Senior Vice President-Finance & Head-Investor Relations, HP, Inc.

So I see already hands here. Very good. Let me start here with Amit here and on the right side. Yeah. Liz, thank you.

Amit Daryanani Q
Analyst, Evercore ISI

Thank you very much. Amit Daryanani, Evercore. Marie, maybe my math isn't working very well, so you can clarify this for us a bit. But if you do $3.1 billion to $3.6 billion of free cash flow and all of it is used for buybacks as the leverage is there, it would imply there's like close to $0.30 of EPS accretion that you should get out of that. Maybe I don't appreciate why is it $0.03 to $0.05? I think that what you had, so maybe just talk about what's the delta there? And to the extent you can talk about this dynamic, if you have a large holder that's trying to exit a position, why not lever up and just kind of take care of that entire situation versus having them file update every three days and be death by a thousand cuts, I feel?

Enrique Lores A
President, Chief Executive Officer & Director, HP, Inc.

Why don't you start?

Marie E Myers A
Chief Financial Officer, HP, Inc.

Yeah, no, absolutely. So I'll hit up the first part of your question first. So in terms of share repurchase, we said 100% is the plan for next year and in a linear progression as well. And in terms of your $0.30 math, we do expect there's an offset against corp., other and OI&E. So take that into account and that's where you get the reduction in the impact on EPS. I don't know Enrique if you want to take the second part.

Enrique Lores A
President, Chief Executive Officer & Director, HP, Inc.

Sure. I think the key thing is that we manage the company to create value for all shareholders and when we look at it from that perspective, we thought the best way was to manage it as it had been happening.

Amit Daryanani Q
Analyst, Evercore ISI

Can I ask one more? All right.

Enrique Lores A
President, Chief Executive Officer & Director, HP, Inc.

Recover the mic.

Orit Keinan-Nahon A
Senior Vice President-Finance & Head-Investor Relations, HP, Inc.

Yeah. We'll come back to you, Amit, thank you. Okay. I see her on the – Eric, here. Yes. Thank you.

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

Q

Thanks, guys, for hosting us today. Erik Woodring at Morgan Stanley. Maybe just a point of clarification, maybe for Tuan or Marie. You know, we talked about a number of different kind of print subscription shifts, whether that's to HP+, paper as a service, Instant Ink, the all-in offering more management services in the enterprise. How should we think about the headwind that you face to revenue from this shift as you kind of layer on these ratable contracts relative to some form of transactional purchase? Because we're guiding to the Print business growing in line with the market. And so maybe just help me square that circle. What's the offset if we think about subscription shift being a relative headwind to revenue growth? Thank you.

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

A

Tuan, do you want to...?

Tuan Tran
President-Imaging, Printing & Solutions, HP, Inc.

A

Thank you. Yeah. So, I think first of all, I think our move to subscription as outlined, and we're very, very excited about that. I think it gives us an opportunity to deliver better customer value. And I think long term it is a more accretive model for us, as I shared. I think the offset for us is if you think about especially from an operating profit dollar perspective, the bulk of our subscriptions are around the consumer business. And if you think of that consumer business, we invest upfront. And so there's going to be a natural offset of that as you think through an operating profit dollar impact.

Marie E Myers
Chief Financial Officer, HP, Inc.

A

And I'd just add Erik, it's all in the guide, So everything that you referred to, we've incorporated the guide here today as well.

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

Q

Okay.

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

A

Okay. Very good. Thank you. Okay. Let's take another question here, Rodrigo, on the left. Yes. Thank you.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Thank you. Aaron Rakers, Wells Fargo. I appreciate the details today. I guess one clarification. Marie, are you saying today, after these last couple of quarters that you are now actively repurchasing shares, you're re-engaging on share repurchase? Because I think the last two quarters, you've emphasized focus on maintaining gross leverage targets. I think you're at the high end of the threshold. And then the question I have is on the PC side of the business. What are you embedding in your assumptions on PC market growth expectations into next year? And when does AI really start to maybe become that incremental growth driver?

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
A

Marie?

Marie E Myers
Chief Financial Officer, HP, Inc.
A

Yeah. Why don't I hit up the front part of your question? So the good news, in a few weeks, we've got our earnings call. I think it's around November. So we'll catch up and update you on our share repurchase plans then. And maybe I'll turn it back to you, Alex, I think.

Alexander K. Cho
President-Personal Systems, HP, Inc.
A

Yeah. Let me talk about the market assumptions. So we have multiple dynamics at play. First is a cyclical cycle. We assume, as I shared, that there will be a refresh cycle happening, particularly as well with Windows 11 coming. By the way, as I mentioned, it's one of the largest installed bases in the commercial segment that we've ever seen. So we feel very good about how we're positioned.

Secondly, we also are assuming the secular trends that will continue to drive opportunities over the longer term, hybrid work and learning, as well as the impact of AI really lifting the category longer term. Then, of course, in that space we're going to be aggressively continuing to drive our mix shifts and drive the – capturing higher part or higher value parts of that segment. So all of that's a part of our assumptions. One of the things that we said is we expect that the market to be returning to growth next year.

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
A

And Aaron if your question was about share repurchases next year. At the midpoint of the guide, we're assuming, we will be buying shares again in 2024.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc.
A

Yeah. Okay. Very good. Thank you. Let me take now a question that we got online. So the question is coming from Wamsi Mohan from Bank of America. The question is, can you please describe the new print margins range? How much is that from the Future Ready plan that is under your control versus mix versus other market dependent factors?

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
A

Marie?

Marie E Myers
Chief Financial Officer, HP, Inc.
A

Sure. No. Well, first of all, thanks, Wamsi. Sorry we're not seeing you here, but I think you did a great job of answering the question really well, actually. So, yes, we have raised our margin range to 16% to 19%. Really, that's reflecting just the performance of the business that we've seen over the last few quarters. And what's underneath that is definitely, as you pointed out, the impact of the cost savings from Future Ready, which as you know, today we raised that to $1.6 billion. And I think you heard from Tuan, we've got some efforts that were doubling down on homes. So obviously that is -- you'll see that show up, too, in the rates as well. And then obviously, just the work that you heard from Tuan today in terms of both the mix as well, all of that together is really what's contributing and getting us the confidence in the rates. I would say that we do expect to be solidly in the range for Print in 2024 as well.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc. A

Okay. Very good. Thank you. Okay. Let's take another question here in the room. I see David here. Rodrigo, if you can help here in the middle.

David Vogt
Analyst, UBS Securities LLC Q

Great. Thank you, David Vogt at UBS. I want to stick on the margin conversation, Marie. So you've already done a really good job and you're at the high end of the margin in Print today. And I know PC is in sort of the middle of the margin target, but if the overall revenue growth is sort of in the 2% to 4% growth over the long term plan, what I'm struggling to understand is how is operating profit growth going to continue to expand from here? Because I think you got it to at least low to mid-single digits. So wouldn't the math sort of dictate that maybe operating profit dollars could be flat to down over the next couple of years? I'm just trying to kind of square that math?

Marie E Myers
Chief Financial Officer, HP, Inc. A

Yeah, and Enrique, if you want to start first, but I mean, in terms of Print and PS, so to answer your question about PS, I think in terms of PS, as you saw today, we did not raise the margin target. We expect PS to continue to operate in that range and we expect PS to be solidly in that range. Now, in terms of the guide we've given, one of the bigger drivers in there in terms of growth is the growth that we expect from Personal Systems. We do expect to see, I'd say, a market in line with market performance year-on-year. From a Print perspective, we also expect to see some growth, however, in Industrial and in Office. So all of that together is really what we're seeing in terms of the guide going into 2024.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc. A

Okay. Very good. Thank you. Okay. I see another question here from Sydney. Rodrigo? Thank you.

Sidney Ho
Analyst, Deutsche Bank Securities, Inc. Q

Well, thanks for the presentation, Sidney Ho with Deutsche Bank. It's good to see you guys executing on the Future Ready transformation plan ahead of your target. I understand that you are reinvesting a lot of that money into the business. But can you help us understand what the net impact we should be expecting? Is there a certain level of operating expenses as a percentage of revenue or gross margin that we should be thinking, say by the end of this this program? Thanks.

Marie E Myers
Chief Financial Officer, HP, Inc. A

Yeah. No, as I think I said earlier, the plan itself, we've raised it to $1.6 billion and we've done that without any incremental charges. And obviously, you've seen some of the initiatives around home, what we're doing today and also in Personnel Systems in terms of driving SKU simplification and platform reduction all of that is what's contributing. Now in terms of where it's going, clearly, you've seen today growing our growth categories, frankly, and then also we've got compensation that we're looking at from a year-on-year perspective.

And we're using some of that capacity, frankly, to offset the macro, pricing and then we're flowing it through. And part of that was what I said earlier in terms of underscoring the confidence that we see in the Print rate. So clearly, you can see that in the rates and frankly, you've seen it in even in the rate performance in both businesses throughout FY 2023.

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
A

Yeah. And this is something we have reinforced in the last earning calls. The fact that we have been able to stay within the range or above the range for both businesses shows the impact that the savings programs are bringing.

Marie E Myers
Chief Financial Officer, HP, Inc.
A

And I would just add, it is both a combination. I think I've said it in the past, but just to reiterate it here today, it's a combination of both COGS and OpEx. So, you can look at it through that lens as well.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc.
A

Okay. Thank you. Just a reminder, again, for those that are the virtual audience, you have the opportunity to submit a question online. So, we'll definitely read the other questions that you're submitting. Oh, and I see we got one, very good. Okay. So the next question is coming from Toni Sacconaghi from Bernstein. So the question is, how does Print have flat growth when 60% plus of the revenue supplies is declining 3% to 5%? Do you really anticipate Print hardware growing 5% to 7%?

Tuan Tran
President-Imaging, Printing & Solutions, HP, Inc.
A

Yeah. I think good question, Toni. So the – for us, again, back to what we said earlier, really shifting the value towards our profit upfront, shifting the value towards tank. And I mentioned tanks, we were 18% market share. We've got a lot of market share to go. We are, as I shared the TAM for office, we're roughly 10% of the overall office share. We think we've got lots of share opportunity now and now the supply constraint is behind us. There's opportunity for that.

I think within the graphics space, it's in a tough macro situation now. As that recovers, we think there's an opportunity to grow there. And then on top of all that, as I shared the transformation work that we're doing, especially in our mature businesses, gives us that opportunities. So from an OP dollar growth perspective, I'm confident we can grow within that, factoring in the supplies declining low to mid-single digits.

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
A

And I think what is important also is to emphasize what is the role of Print in the portfolio, as we have said a couple of times during the prepared remarks. The role of Print is to grow operating profit dollars. This is a key objective that we have for the business, for this business in the company. And this is what we are doing to design and to align the plans and the strategies for it.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc.
A

Good. Thank you. I see there was a follow-up question, do you expect supplies growth in fiscal year 2024 to be within your long-term range?

Tuan Tran
President-Imaging, Printing & Solutions, HP, Inc.
A

Yes.

Marie E Myers
Chief Financial Officer, HP, Inc.
A

Yes.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc.
A

Yeah. Thank you. Very good. Let me turn back to the room. Okay, as I say, some, yeah, we have a question here.

Samik Chatterjee
Analyst, JPMorgan Securities LLC
Q

Hi. Thank you for hosting us. Samik from JPMorgan. Just want to talk about these services opportunity that you highlighted as part of the key growth areas where I think, Enrique, you mentioned as you look out, it'll be about 30% of the mix of the business. How does that breakdown between PS and Print. And I'm just sort of more curious if that's one of the drivers of the Print margins as you look forward? And just a quick follow-up, similarly, AI, when that starts to come through what we think for margins there really to the core PS business.

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
A

So let me start and then maybe Dave wants to make a few comments on that. I think on the services growth, what we said is it will be 30% of the growth businesses. So at least 30% of the $15 billion. This is how we dimension the services business. We have not split between Print and PS what will be the impact. But what you are saying is correct. It will be accretive to margins for both businesses, which will help to stay within the margins that we have described.

Dave Shull
President-Workforce Solutions, HP, Inc.
A

Yeah, I would just kind of add to that, which is on the Print side as Tuan indicated, we see – we do see significant upside on the office business, specifically tied to contractual and also the ability to upsell additional workflow software into that base. And so I would say for both businesses, it's a substantial contributor on the growth side between both PS and Print.

Marie E Myers
Chief Financial Officer, HP, Inc.
A

And I might just add that actually next year we will actually be disclosing our services revenues. So in our financial statements, more to come here, you'll start to see that in FY 2024 as well. So that will give you more insight into that business and its performance.

Alexander K. Cho
President-Personal Systems, HP, Inc.
A

Let me touch on your question around AI and impact that we foresee. So as I mentioned before, estimates right now are around ASP increasing 5% to 10%. And that makes sense because these new experiences are going to require richer configurations in a very meaningful experiences that you get from running AI locally in a PC. So that kind of estimate is very reasonable, we think that will help to drive and continue to drive growth in the market.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc.
A

Very good. Thank you. Okay, let's see if we have more questions here in the room. I know follow-up questions. I mean, Amit has a follow-up. Yeah.

Amit Daryanani
Analyst, Evercore ISI
Q

Perfect. Now I can ask multiple questions. I guess a quick one would be just when you talk about the $1.6 billion of growth savings that you expect from the initiative so far is everything we think about how much of that goes to Print versus the PC segment? And historically, what's the net number typically been, so maybe that's one set?

And then Enrique, in the past and we've always talked about the Print business and the four-box model, if you may, the installed base used to be the most important thing in that. And you are seeing the installed base sort of diminishing – shrink here over a bit. So can we just talk about why the confidence in the margin expansion, everything else, when one of those key part of that four-box seems to be shrinking, just maybe highlight the offsets of that, if you may?

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
A

Sure. Let me start with that. And then Marie, you complement, I think as you said, the installed base for Print, we expect it to continue to decline. It has been declining for a long time and we don't see any reason for us to – for it to change. I think what helps from a margin and profit perspective is all the work that we have been doing, rebalancing profitability between hardware and supplies. Adding additional services, which really would have behind is our goal to capture more money or more value over the lifetime of the customers.

You have heard that multiple times today through the presentation. This is true for PS, but especially true for Print and this is why Tuan was highlighting that when we shift one of these customers, one customer to a fully subscription model, the opportunity to capture the value we have is more than 50% than the traditional model. This is what is at the core of the value creation that we have for Print.

Marie E Myers
Chief Financial Officer, HP, Inc.
A

And then on your question on the savings, so in terms of the $1.6 billion, obviously, we raise that today by $200 million. Part of that was the confidence you heard from Tuan around the work we're doing at home. I'd just say across both businesses, we're really seeing the impacts from the Personal Systems and a Print perspective, we're actively looking at platform reduction in Print and SKU reduction in Personnel Systems. And you're seeing those costs savings flow through, frankly to the bottom line.

So it's a mix of both businesses and we expect to continue to focus on gross run rate structural savings. And I think, we've been pretty clear about what the numbers were for 2023 and obviously going into 2024 and 2025, we don't see the transparency around that changing as what I would say. But as I've said before, I think it's a combination of both COGS and OpEx. But clearly, we see lots of opportunities, a company, the size and scale of HP, there's always opportunities to chase efficiencies.

Orit Keinan-Nahon A
Senior Vice President-Finance & Head-Investor Relations, HP, Inc.

Okay. Very good. I'm taking one more question here from the virtual audience, and I'll come back here to the room in a minute. Okay, so the question is from Tim Long from Barclays. The question is, can you dig a little deeper into AI, PCs? When do you expect there to be ramp and what do you think the impact will on ASP and margin? And do you see a different competitive environment in this segment as others seem focus on the high-end segment?

Enrique Lores A
President, Chief Executive Officer & Director, HP, Inc.

Alex?

Alexander K. Cho A
President-Personal Systems, HP, Inc.

I should take that. Yeah. So first is, we're expecting – you can expect in the back half of next year some of these devices that are really designed from the grounds-up to capitalize on local inferencing on the PC. So that means that we're expecting that the ramp to be really in the subsequent year 2025 and beyond. And when you think about the competitive set, we actually feel very good about that because this is a space where enabling premium experiences, this is a space where driving the mix to more premium segments will be really useful. We've demonstrated that we made a lot of progress in that space, in fact we're the fastest growing player out there in growing high value share. And the other thing that I mentioned earlier was, and this is the space where our leadership in security, particularly endpoint security would be really advantageous because a more secure PC will be the basis of a more secure AI experience in the future, and that's going to be very important for our customers.

Marie E Myers A
Chief Financial Officer, HP, Inc.

And I would just add to it. In terms of just the impact on margin, I mean, if you just think about what's going to go into an AI PC, obviously all of that's just mixing up the PC itself. So obviously will play into a higher ASP as well.

Orit Keinan-Nahon A
Senior Vice President-Finance & Head-Investor Relations, HP, Inc.

Okay. Very good. Let's go back to the room here. Erik, I see you have a follow-up. Yeah.

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

Thank you. Erik Woodring, Morgan Stanley. I do just want to unpackage that Print revenue question a little bit deeper. I understand operating profit dollar growth is the goal. But again, if you assume supplies are down 4%, hardware has to grow 10%. So maybe as a different way, what parts of the hardware market do you think can grow in excess of 10%? What do you think would grow less than 10%? Just help us understand where that growth...

Tuan Tran
President-Imaging, Printing & Solutions, HP, Inc.
A

Yeah, yeah, so...

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

...comes from? Thank you.

Tuan Tran
President-Imaging, Printing & Solutions, HP, Inc.
A

I'll jump in here. I think the hardware, especially what we're seeing today, our ASPs as I shared with you, is actually up 9% today. So it's not too far off from what we're seeing today. As we look forward, I think that's when you start seeing the mix of our tank business coming in as you start thinking about the office, which naturally has higher ASPs, as you think about the recovery in graphics and that's the dynamic. And along with all that, going back – and that's a revenue comment, going back to the OP comment, then you also have to add back the cost structure work we're doing as well, right. So those are the big variables and then I don't have the – we're not going to go into the specifics of each one of those, but that's basically the underlying assumptions in our plan.

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
A

Have in mind, Erik, when we sell big ink system or a big toner system, we basically all sell in the printer, we sell all the supplies that will be used for some time. So if you compare unit with unit, the difference in price is between 2 times and 3 times in most of the cases. So this drives a significant change in the supplies versus hardware equation.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc.
A

Okay. Very good. Thank you. We take some more follow-up. Aaron, yeah, stay there.

Aaron Rakers
Analyst, Wells Fargo Securities LLC
Q

Yeah. Thanks. I just keep going back to this AI narrative on the PC side and I think it's not just you guys, but the entire ecosystem starting to really talk about this a lot. And Enrique, I think in your initial comments you made some comments around working tightly with the silicon providers. Does it require you guys to work deeply with them to have a differentiated solution that you've got to optimize chipset with embedded AI engines? Is it GPUs? If it's GPUs, it would seem that the ASP would actually be maybe even significantly higher than just the 5% to 10% increase. Just unpack a little bit of that of how, again, you see the competitive landscape at the silicon level changing and maybe creating some differentiation for HP?

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
A

Yeah, let me start and then probably Alex can complement. I think in the last three or four years, there has been a fundamental change in how PCs are designed. It used to be a market where the different players work horizontally. You had silicon providers, you had OS providers, you had applications, you had product designers, all working on these pieces. And the integration was happening automatically. For the last two years, this has shifted and now we are designing vertically, meaning we are working at the same time with a OS provider, with a silicon provider, with application provider and us to make sure that the full solution is optimized for a specific application. This is what we mean. And this is what we have been doing for some time before AI and we launched a product with AMD that had been totally co-engineered a year ago, and this is the way we are working now with Intel, AMD, Qualcomm to make sure we start from the application and we design the whole system to fully – to be fully optimized.

And we do talk about the type of architecture we're building are going to be systems that will include a standard processor and a DPU or a TPU, depending on the vendor the configurations are different, but the magic is going to be in the integration of both to deliver the low cost, both of the equipment, but also of consumption.

Alexander K. Cho A
President-Personal Systems, HP, Inc.

Yeah. Let me just add. It really is an opportunity for us to leverage all the engineering capability we have. We've got a lot of engineering here that's building the stack and curating that, as Enrique mentioned. And here's where in terms of differentiation, particularly our engineering expertise on security, because we have that down to the BIOS level, all the way up to the stack that secures that entire experience. Taking that as the basis by which we're going to deliver a more secure AI experience on that PC. That's one of the key advantages we have working very closely, as Enrique said, with silicon players, software providers, OS layers and providing that entire stack in a meaningful way for each customer.

Enrique Lores A
President, Chief Executive Officer & Director, HP, Inc.

Probably a good proxy for it is to think that what we are doing is similar work to what we have been doing in our high end workstations for a while. But we are bringing these to mainstream PCs. But the type of engineering and work that needs to be done is very similar.

Orit Keinan-Nahon A
Senior Vice President-Finance & Head-Investor Relations, HP, Inc.

Very good. Okay. Thank you. Let me take now a question here from virtual audience. So the question is coming from Asiya Merchant from Citi. Question is, where do you think the market is exhibiting the most competitive intensity today? PCs, Print or peripherals? And if HP is expecting to gain share, who does HP hope to gain share from?

Enrique Lores A
President, Chief Executive Officer & Director, HP, Inc.

Well, this is probably the last question of this session. So who wants to start? Tuan Tran?

Tuan Tran A
President-Imaging, Printing & Solutions, HP, Inc.

I'll jump in. I think certainly from a Print side, what we're seeing and we primarily compete with our Japanese competitors. And coming out of the pandemic, we see a yen situation that gives them a lot of opportunities to really drive share gains over the last few quarters. And I think as we need to compete and that's probably where the most of the competitive intensity is coming from. At the same token, I think we have a great set of products and innovation, as I shared with you today, around our office portfolio or a tank portfolio and we don't want to chase share for share sake. We want to go after the high value share and the important share in the marketplace. I won't name competitors, but I think for us it's about getting the right share in the marketplace, being very disciplined about doing that. Right? And we've talked about that in the past, just being very focused on getting the right customer that's got the right return over time.

Alexander K. Cho
President-Personal Systems, HP, Inc.

A

It's going to be a fun next dinner conversation. Who has more competition? But let me just say, on the Personal Systems side, similarly, we don't really chase share for share sake, but we care about the higher value segments. And we've demonstrated that we're able to do that. In fact, in the last three quarters, year-to-date we've grown more share overall, but importantly in the higher value segments and that's a very important thing that we're driving through innovation and go-to-market. And really is all the innovation and go-to-market and we've been able to – be able to execute that across the systems.

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

A

And maybe to close I would not change our position with any of our competitors, not on Print, not in Personal Systems. We have a very strong portfolio driven by innovation. We have very strong global manufacturing scale that we are modifying as we said before. We have leading go-to-market. We have 150,000 channel partners that were with us and a very strong brand. With all these elements, I would really never change our position with any of our competitors.

Marie E Myers
Chief Financial Officer, HP, Inc.

A

Aren't we number one on everything, Enrique?

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

A

Yes. Thank you.

Marie E Myers
Chief Financial Officer, HP, Inc.

A

Very good.

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

A

After the joke on this comment, Marie is going to be the next marketing leader for the company.

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

A

Okay, let's get back to the room. I see David here in the middle has a follow-up question.

David Vogt
Analyst, UBS Securities LLC

Q

Great. Thanks, David Vogt at UBS. I actually have two questions, one for Alex and one for Enrique. So, you talked a lot about AI PCs, but I think you're showing an AI-powered workstation in the customer demo as well, so that SKU is dramatically higher. Where do you see the competition coming in? So, you have AI-enabled servers at the core of the network, edge of the network, you're coming upstream with PCs and workstations. So, does that increase the competitive intensity with traditional server-based companies? And how do you think about sort of where that shakes out from a mix perspective?

And then, I know we're about a year and this is for Enrique, about a year past the closing of Polycom and it certainly sounded like in Marie's comments that M&A sounded maybe a little bit more front and center than maybe what I've noticed in the past. So, would kind of like to get your thoughts on, is that interpretation correct? And if so, what are you looking at not by name, but in terms of capabilities or competencies right now going forward from an M&A perspective? Thanks.

Alexander K. Cho
President-Personal Systems, HP, Inc.

A

So, I'll start that. The first is, I think, it's useful to consider the three big types of plays in this AI market. One is around all the software application development, second is around infrastructure and those who are helping people create new AI models, and the third is around AI PCs that would be around inferencing on the PC and taking advantage. So, we capture those three. We've talked about the AI PC. It's in the second area that you're talking about. We're very excited about what we've done with our data science solution stack. It's workstation based. It's helping customers today customize and tune their AI models. Every company really is spending time identifying ways that they can use AI models for their own productivity. It's a stack that's really unique and differentiated in the market. It allows multiple people to work together across local cloud environment. It's really an open environment. We're very bullish about it because it will be really an incremental adjacent opportunity for us above our core PC market. So, we see this as now incremental plus the core opportunity that we have in the AI PC space.

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

A

Let me share a small CEO trick that I follow to understand whether our product is good or not. We have been using our workstation solution for AI for the last six months. And our internal team is thrilled about the capabilities that it has and where they have been talking to people in other companies doing similar work, they have been selling the product themselves because of the value that this has. So, we are really convinced we have something unique in this workstation space, not only because of the hardware, but especially because of the solution stack that the team has put in place. In fact, I have to make a small commercial now. Yesterday, Alex and I were at NVIDIA and we were working with Jensen and his team to see how do we launch this product together. And he asked me two times, please mention that we are working on this together, mention the NVIDIA name. So, Jensen and I did it. That's the point.

Alexander K. Cho
President-Personal Systems, HP, Inc.

A

Can you imagine the action item I got from two CEOs staring at me to move faster.

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

A

And your second question was, sorry.

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

A

Yeah, yeah.

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

A

So, no, I think your interpretation actually is not correct, nothing has changed. Our capital allocation strategy has not changed. We have said for multiple quarters now that our plan is to return 100% of free cash flow to shareholders unless opportunities with a better ROI are identified and this is how we are operating. The way to think about what we will do in the future is to look at what we have done last six quarters. We may do similar moves once we identify something that will support our growth strategies, once we convince ourselves that we can execute successfully, only the financials are better than other investments that we could be making, exactly the same as we have done. And, of course, always that our leverage stays below 2 times, which we have been very disciplined about.

Marie E Myers
Chief Financial Officer, HP, Inc. A

And I would just add that in the near term, I think I said it in my prepared remarks, we're really focused on integrating Poly. So, we're still in the midst of that integration itself, too, as well.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc. A

Very good. Thank you. Let me take another follow-up question here in the room. Sidney, yeah. Thank you.

Sidney Ho
Analyst, Deutsche Bank Securities, Inc. Q

Sidney Ho with Deutsche Bank. I know – a little more near term if you look at the fiscal 2024 outlook and I know you didn't guide for revenue. But I was just curious how you think about the growth expectations by the different segments versus the three-year CAGR that you talk about in your presentation, given this year is probably a cyclical trough. And if you can add any color by segment, commercial versus consumer, hardware versus supplies in Print, that'll be great. Thanks.

Marie E Myers
Chief Financial Officer, HP, Inc. A

Sure. So, as you know, we guided a $0.40 range and we really anchored ourselves at the midpoint, which is the $3.45 and we built in some flexibility there in terms of just the macro, right, which is how we sort of thought about it. And then I would say in terms of the business performance, I think as I said in my prepared remarks, we do expect Personal Systems to be in line with market and similarly in Print. What that means is that PS, we are expecting some growth and that in Print we're expecting some growth in industrial and in office. So, combined together, that's what's really underscoring the $3.45. And then, I would just say at the low end, at the high end, the low end obviously takes into account a weaker macro. But you can see what we've done today, we've raised our Future Ready plan to be $1.6 billion. So, we built some capacity. At the high end, what we're assuming is a better macro, but really the midpoint is around a much more sort of stable, stabilized macro. So, that's how we think it and the puts and takes in the business really tie to us being very much in line with market performance for both businesses.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc. A

Very good. Thank you. Okay. Let me take here, we have another question that was submitted from our virtual audience. So, the question is coming from one investor. Thank you for the closer look at your services, strategy, and outlook. Some of your competitors have announced aggressive plans in this space. How does HP differentiate itself and what does it take to win?

Dave Shull
President-Workforce Solutions, HP, Inc.
A

I like Marie's answer the most, which is we're number one. So, I mean, all joking aside, I think what's interesting is when you talk to customers, the focus that we have on employed productivity is really strong. And so, whether we're competing with some of the traditional Print competitors or some of our friendly PC competitors, I think we show very differently when you go into a customer environment. And the ability to have a dialogue with a customer that crosses from managed Print to a managed PC to a Poly collaboration to Renew and sustainability opens conversations that are very different. And so, that's been very exciting to me, actually the last couple of months here. And so, I think – I think that's kind of our claim to fame. That's where we're going to differentiate ourselves is all in on this workforce, experienced workflow and employee productivity.

Tuan Tran
President-Imaging, Printing & Solutions, HP, Inc.
A

And I would also add a comment around consumer. We think our – there have been Print...

Dave Shull
President-Workforce Solutions, HP, Inc.
A

Yeah.

Tuan Tran
President-Imaging, Printing & Solutions, HP, Inc.
A

...competitors who've launched similar subscription. For us, we've been doing this for over a decade. All of our product lines support our subscription model. We've got 13 million customers. We've expanded the small businesses. We expanded the toner. We're actually very optimistic about actually incorporating the hardware in the subscriptions. So, I think we're generations ahead in terms of rolling out products understanding customer needs. And actually, I should mention the paper, we're also adding attach. And so, the key to all that is really driving more value for the customer and that's what makes us excited about that from a consumer side.

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
A

And I think what is consistent between both questions is the fact that what makes us different is that we are very focused on endpoint devices. This is what happened after separation and this focus is helping us to really make sure we understand what we need to do to improve employee productivity, to reduce TCO, to reduce cost for IT managers of our devices. This ability to stay focused and really concentrate on this space helps on both sides to really help us to be more competitive.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc.
A

Very good. Thank you. Okay. Let's go back to the room. I see here Samik was – yeah. Thank you.

Samik Chatterjee
Analyst, JPMorgan Securities LLC
Q

Hi. A quick couple of follow-ups. I think in your prepared remarks you said you haven't made as much progress in the office Print market. I mean, when you sort of now look at it in hindsight, what has been the impediment to gaining share there? How do you sort of change that particularly with this renewed focus? For Marie, just the – I think $0 to $0.25 that you expect from the business in the fiscal 2024 outlook for the EPS walk that you had, can you just maybe give a bit more color about how much of that can we underwrite from cost saves versus growth on the top line? How much of that is macro independent versus the portion that's more macro driven and revenue dependent? Thank you.

Tuan Tran
President-Imaging, Printing & Solutions, HP, Inc. A

Do you want me to jump in on the office question?

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc. A

Yeah.

Tuan Tran
President-Imaging, Printing & Solutions, HP, Inc. A

Yeah. So the office, in terms of our inability to make progress I think over the last couple of years, number one, I think office market has been relatively depressed. And number two, in terms of availability, we're just now getting out of availability for our devices. You certainly don't want to be in position where you're gaining share and trying to drive share when you're trying to figure out how many units you have and where to ship them and the allocation situation we've been in. And I think coming out of all of that, I think we're in a situation where I'm seeing recovery in the office and we've got our whole new product line, we're outside of the component constraints now, and we're ramping those up and I feel very bullish about what we can do in the future.

Marie E Myers
Chief Financial Officer, HP, Inc. A

Yeah. And then in terms of what's driving the flow-through year-on-year, I think the first way to start out is to think about our Personal Systems business. Clearly, as you've heard here today, we're looking for – to grow in line with market, and we do expect to see a sort of year-on-year improvement in terms of what the market's expecting. So, a piece of that is definitely going to be tied to Personal Systems growth. The second piece I would add is just also we do see some better performance. You had heard Tuan here just talk about office. We're seeing some of that come through also in industrial in 2024. And then finally, yeah, obviously, there's the benefit of the savings of Future Ready. So all of those combined together is the right way to think about it.

Now, I'm talking here right now at the midpoint. And if you think about the midpoint, it's really a 5% improvement in EPS year-on-year. So you could sort of back into what Personal Systems will be in terms of market growth and then also Print, which we expect very much to be sort of flattish year-on-year.

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

Okay. Thank you. Do we have more follow-up? Okay. Aaron, thank you.

Aaron Rakers
Analyst, Wells Fargo Securities LLC Q

Yeah. Thanks. I just wanted to ask more questions than Amit.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc.
A

Amit, you're losing.

Aaron Rakers
Analyst, Wells Fargo Securities LLC
Q

So, actually I got a real simple question. We've heard from many years 3D print and that a core focus for the company, adjacent growth opportunity. Just simple question is, when does that become big enough to start actually getting more visibility into it? Is there any visibility you can provide of how big 3D print is today? When does that maybe inflect to something bigger? Just any kind of framework around how you guys think about that market opportunity?

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
A

Sure. I think the – I'll start on and maybe...

Tuan Tran
President-Imaging, Printing & Solutions, HP, Inc.
A

Yeah, yeah, yeah, yeah.

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
A

So I think on 3D, from one side, we continue to see this as a growth opportunity of the company, because we see that the market is going to continue to grow. But at the same time, if you look at where the market is today versus where we're expecting it to be five years ago, and we and the whole industry is clearly at a very different position. So we are continuing to invest. We continue to see there is future there. We have made good progress, as Tuan was explaining, in building vertical applications, what was the strategy. But still the scale of the company continues to be a fairly small business.

Tuan Tran
President-Imaging, Printing, & Solutions, HP, Inc.
A

Yeah. And I think what's important in a business like that is you want to make sure you're adding a lot of value to customers. You want to make sure the solutions you're bringing in vertically have value. And I think that's the applications that surround that, the part design that I was talking about, you need to go back to the design if you're going to combine multiple parts that have unique value, you're going to have to go all the way back to the designers. If you're going to design a shoe that's got better – lighter weight than foam and more resistance than foam, you're going to have to go all the way back to the design cycle. So I think that's what we're seeing is that if you're going to add value for customization, and with 3D, the value is all in the customization. You've got to go all the way back to the design center. And I think that's the adoption, and then as you roll that out, right.

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
A

And this is probably the key insight behind driving the different pace of market growth. Replacing that additional part just because of cost or because of just in time is not enough. The part needs to have been designed for 3D, take advantages of the unique capabilities you can build, like in the shoes Tuan is wearing, and then the market grows. But this narrows down the opportunity. Parts are more valuable, which is good, but size and volume is much, much smaller.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc. A

Okay. Any last questions here from the room? Any follow-up?

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc. A

I mean, it is your chance.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc. A

Yeah.

Orit Keinan-Nahon
Senior Vice President-Finance & Head-Investor Relations, HP, Inc. A

Very good. Let me take last question here from the virtual audience. So the question is coming from Tim Long from Barclays. Can you talk about the PC supply chain and inventory status? And what impact would this have on margins since the main players are still above pre-COVID levels?

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc. A

Marie, do you want to start on...?

Marie E Myers
Chief Financial Officer, HP, Inc. A

Yeah. No, look, I'd say at this point, we are expecting I think we've said this in our last earnings announcement that the channel will continue to stabilize. And obviously, we expect, as we think about our PC margins going into 2024 that we're going to be solidly in the range. Now, one of the factors – some of the factors driving that are definitely the mix. You've heard Alex talk about the work that we've done and clearly being number one in consumer and commercial helps, but continuing to drive up that mix is going to contribute. Secondly, as the channel stabilizes, we expect to see those benefits in terms of just better ASPs as well. So, I would say in terms of the outlook for 2024, they're the sort of main drivers that we see around PC margins. I don't know, Alex, is there anything else you want to add?

Alexander K. Cho
President-Personal Systems, HP, Inc. A

No, I think the key part that you mentioned is we're driving the mix, we're driving high-value mix, and we're going to continue to do that. And given the innovations in our go-to-market engine to do so. We've done that. We've done that since the last time we were together. We've actually grown 6 percentage points of higher value mix in computing. We've done it faster than anyone else in the past three quarters, and our plan is to continue to do so.

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

A

And actually margins are going to be above pre-COVID levels. Just a reminder, we've raised margins a couple of years ago, so we expect to be in the new ranges, which are 1.5 point above where we were before COVID. So this is a significant improvement despite the challenges that we just discussed.

Marie E Myers
Chief Financial Officer, HP, Inc.

A

And some of that's also coming from Future Ready. I know we've had a lot of questions about that, but clearly that's also why part of the reason we ranged Print and obviously what's going to provide for PS to be solidly in the range next year as well.

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

Okay. Very good. Thank you. I think with that, we are concluding our Q&A session. I don't know if you have any final...

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

Again thank you, everybody, for joining today, both here in the room and online. As you have seen, we are really convinced about the opportunity we have to create value for our shareholders, whether it is about growing value in our core businesses, expanding into the adjacencies we have been describing, continue to make the company more efficient. We are going to be working on all fronts to continue to grow value. So thank you for your confidence. And again, thank you for being with us today. Thank you.

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

Thank you.