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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Second Quarter 2025 HP Incorporated Earnings Conference Call. My name is Tina, and I will be your conference moderator for today's call. At this time, all participant lines will be in a listen-only mode. We will be facilitating a question-and-answer session toward the end of the conference. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

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

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

Good afternoon, everyone, and welcome to HP's second quarter 2025 earnings conference call. With me today are Enrique Lores, HP's President and Chief and Chief Executive Officer; and Karen Parkhill, HP's Chief Financial Officer.

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

As always, elements of this presentation are forward-looking and are based on our best view of the world and our businesses as we see them today. For more detailed information, please see disclaimers in the earnings materials relating to forward-looking statements that involve risks, uncertainties and assumptions. For a discussion of some of these risks, uncertainties and assumptions, please refer to HP's SEC reports, including our most recent Form 10-K. HP assumes no obligations, and does not intend to update any such forward-looking statements. We also note that the financial information discussed on this call reflects estimates based on information available now and could differ materially from the amounts ultimately reported in HP's SEC filings.

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

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

Enrique Lores

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

Thank you, Orit. And thank you to everyone for joining today's call.

Against the backdrop of a highly dynamic landscape, we delivered another quarter of solid top line growth, driven by continued momentum in the Personal Systems Commercial business. However, due to additional tariff costs that could not be fully mitigated in the quarter, our non-GAAP operating profit fell short of expectations. Today, we will take a deeper dive into Q2 performance, the evolving external environment, and our outlook. I will also highlight new innovations we introduced to drive our momentum forward.

Let me start with our Q2 result. Overall, we delivered revenue growth for the fourth consecutive quarter with a 5% increase in constant currency year-over-year. We saw strong growth in Personal Systems, particularly in Commercial and high-value category, driving momentum in our key growth areas. These meaningful results show that our Future of Work strategy is working.

Nonetheless, the rapidly changing external landscape, including shifting trade policies and additional tariffs, had a net impact of approximately 100 basis points on our non-GAAP operating profit, mainly in April and primarily impacting Personal Systems. This resulted in a roughly $0.12 impact on our non-GAAP earnings per share. By net impact, we are referring to all tariff-related impacts after taking into account the mitigation actions.

We swiftly responded to these changing market dynamic, and were able to partially offset them in the quarter through cost actions, pricing and accelerating the transition of our manufacturing footprint. We continued to diversify our manufacturing locations so that we can best respond to geopolitical changes with agility. We have expanded our manufacturing footprint for both PCs and printers to different locations, and we recently increased our production coming from Vietnam, Thailand, India, Mexico, and the US.

By the end of June, we now expect nearly all of our products sold in North America will be built outside of China, significantly accelerating our previous plan. However, it takes time and investment to fully mitigate such impacts.

Let me now share more color on our business unit performance. In Personal Systems, revenue grew 8% in constant currency, above our expectation, driven by strong Commercial performance. PC Commercial revenue grew 9% year-over-year, including strong growth in North America and Asia.

As expected, we saw continued strength in AI PC demand and the Windows 11 refresh, and we believe that momentum will carry forward.

We drove share gains year-over-year in Commercial PC, particularly in premium, workstations, AI PCs and gaming. We drove growth in services with several new wins in healthcare, financial services and retail.

Personal Systems operating margin came in below our guidance, largely due to higher tariffs that were not fully offset by our actions in the quarter. We expect to successfully mitigate these costs and return to our long-term target range of 5% to 7% next quarter.

In Print, revenue declined 3% in constant currency, in line with our expectation. We saw revenue growth across home and office in Europe, helping to offset a slowdown in North America and continued weak demand in China. And we continued to drive momentum in home with units up 2%, fueled by strong Big Tank growth. We grew share year-over-year in developed market, optimizing profitable share, mainly in office A4 value and A3.

In our key growth areas for Print, we saw continued growth in Consumer Subscriptions and Workforce Solutions, and we drove another quarter of growth in Industrial Graphics, supported by the portfolio launched at Drupa, confirming the high adoption of our new product introductions. Our focus remains on what we can control, executing with discipline, supporting our customers, and making strategic decisions that position HP for the long term.

Now, let's turn to the significant strides we made in innovation. This quarter, we advanced our strategy to lead the Future of Work by delivering experiences that help businesses grow and employees find greater professional fulfillment. At our Global AMPLIFY Conference in March, we deepened relationships with over 1,100 partners and customers. We unveiled more than 80 new products and services, and the positive reactions from attendees reaffirmed our direction.

A key highlight was the global rollout of the HP Workforce Experience Platform. Combining AI with real-time insights, this software solution enables CIOs to boost productivity and address issues before they disrupt work. Feedback from our early adopters has been incredibly positive, highlighting the platform's impact on workplace efficiency and its role in improving employee satisfaction.

To accelerate the adoption of AI and bring its benefits to the mainstream, we introduced one of the most comprehensive AI PC portfolios in the industry. This portfolio features the redesigned HP EliteBook and EliteDesk engineered to help people work smart and faster while keeping their data secure. To enhance advanced workflows for data scientists and AI developers, we teamed up with NVIDIA to launch the HP ZGX AI Station, our high-performance workstation powered by Blackwell, and designed to accelerate productivity and enhance security.

In Print, we are leading the way in security with our new LaserJet Enterprise devices, the first printers in the world designed to guard against quantum computer attacks. And our industrial print team received five prestigious European Digital Press Awards, recognizing our bold vision to lead the industry for automation, productivity and sustainability. In April, we brought our latest generation of latest technology to life, engineered to simplify production and optimize printing processes.

Third, with our Print Hub software, print shops can now drive greater efficiency and control from a single platform. This innovation played a pivotal role in our recent collaboration with Scuderia Ferrari, where we've co-engineered a high-performance car product that's up to 14% lighter and 17% thinner, translating breakthrough technology into real-world speed.

The advancements across our entire portfolio this quarter demonstrate our leadership in creating a secure and powerful AI stack that connects devices, data and workflows to drive meaningful productivity.

In Q2, we acted quickly to address tariff-related headwinds, taking decisive steps like accelerating our manufacturing rebalancing, redesigning our logistics network, shifting sourcing, and qualifying new product configuration. These efforts both strengthened our operational agility and led the foundation for continued resilience. We will carry this momentum into Q3 and Q4 as we further reinforce our supply chain and operational capabilities. Additionally, we have implemented price increases to help offset cost pressure. While these decisions are never taken lightly, they are essential to maintaining our financial discipline.

Looking ahead, the remainder of fiscal 2025 will be shaped by a range of factors, some of which remain uncertain. We have planned for today's tariff landscape. And if it changes, we will respond swiftly as we did in Q2. We continue to expect that PC market will grow in 2025, but softer than originally planned, driven by increased macro uncertainty. That said, we remain confident in our ability to grow faster than the market and gain share. In Print, we continue to expect the market to decline low-single digit for calendar year 2025.

We expect the actions we are taking to gain full traction in the second half, leading to sequential operating profit improvement. We are making progress with the execution of the Future Ready Accelerated Plan that we announced last quarter, and we are now expecting to exceed our goal and deliver at least $2 billion in gross annual run rate structural savings by the end of fiscal year 2025. These incremental structural savings will help mitigate macro and geopolitical uncertainties while continuing to support investments in strategic areas.

We are confident in our ability to navigate an evolving market. We have always excelled in managing complex environment. We have an incredible team capable of optimizing processes, implementing best practices, and achieving global efficiency. As we move forward, we remain committed to delivering sustainable growth and creating long-term value for our shareholders. Our focus on harnessing the power of AI to make work more personal, productive and fulfilling will drive our success now and into the future.

Let me now hand it over to Karen.

Karen L. Parkhill

Chief Financial Officer, HP, Inc.

Thank you, Enrique, and good afternoon, everyone.

We delivered another quarter of solid top line growth, driven by continued momentum in the Personal Systems commercial business, aligned with our vision of leading the Future of Work. We executed our strategy across multiple fronts, including growing share in high-value categories across Personal Systems and Print, driving momentum in our key growth areas, and exercising disciplined cost management while continuing to invest in strategic initiatives.

However, against the backdrop of a dynamic geopolitical landscape, our non-GAAP operating profit fell short of expectations due to additional tariff costs that could not be fully mitigated in the quarter. As a reminder, our guidance for Q2 included tariffs in place at the time. While we plan for a range of scenarios in the quarter and we worked aggressively to respond to changes in the regulatory trade environment, the tariff increases announced in

April were higher than expected. That said, as you heard from Enrique, we made meaningful progress expanding our supply chain and manufacturing footprint, and we accelerated actions on cost reduction and pricing.

However, as we indicated last quarter, the full benefit of these mitigating actions can take a few months' lead time depending on the scope. During the quarter, our operating margin was impacted by net tariff costs, mainly in Personal Systems.

Taking a closer look at the details of the quarter. Net revenue was up 3% nominally and 5% in constant currency, with growth across all regions. In constant currency, APJ grew 9%, Americas grew 5% and EMEA grew 1%. And while we made progress on the cost of good reduction actions we started at the beginning of the year, gross margin at 20.7% was down year-over-year, with increased tariff and commodity costs. We drove non-GAAP operating expenses down year-over-year to help offset, including driving Future Ready cost savings, continuing disciplined cost management, and reducing variable compensation. All in, our operating margin of 7.3% was impacted by roughly 100 basis points due to unmitigated tariff and related impacts, mainly in Personal Systems. Below the op profit line, non-GAAP net OI&E was flat year-over-year, in line with our expectations, with lower short-term borrowing costs offset by currency losses.

Finally, with the diluted share count of approximately 956 million shares, our non-GAAP diluted net earnings per share was $0.71, reflecting the tariff and related impacts net of mitigations of approximately $0.12.

Now, let's turn to segment performance. We delivered another quarter of solid growth in Personal Systems with revenue up 7% nominally and 8% in constant currency, above our expectations, and driven by higher Commercial volumes and increased ASPs. We did see some demand pull forward, but estimate it was minimal, accounting for less than 1% of our revenue growth. As we signaled, we drove disciplined pricing actions to help mitigate increased tariff and component costs, and shifted mix toward premium categories. And momentum continued in our key growth areas, with strong performance in AI PCs, Advanced Compute and Workforce Solutions.

We also drove Commercial unit growth of 11%, gaining share overall and in premium categories as the market momentum and refresh activity continued. Commercial revenue increased 9% year-over-year with pricing actions and mix shift toward premium offset in part by currency impacts.

In Consumer, our results reflect our strategy to rebalance our portfolio to a more profitable mix. We saw 2% revenue growth on lower volume through favorable pricing and mix shift, including share gains in gaming.

Our operating margin in Personal Systems was 4.5%, below the range we guided at the beginning of the quarter and down year-over-year from higher commodity costs and tariff costs that were not yet fully offset by repricing and cost reductions. It's worth noting that excluding the impact of tariff costs, our PS margin would have been well within our 5% to 7% guidance range.

Turning to Print. Our results were in line with expectation as we continue to focus on profitable unit placement. We increased our market share in high-value categories, and drove overall hardware unit growth. Our key growth areas continue to gain momentum, including revenue and subscriber growth in Consumer Subscriptions and industrial growth fueled by both hardware and supplies.

Across Print, revenue declined 3% in constant currency on supplies declines and hardware softness in North America. By customer segment, we grew Consumer units 3% year-over-year, led by strong growth in Big Tank. In Commercial, revenue declined 3% year-over-year on a 2% unit decline. We continued our purposeful focus on profitable long-term unit growth, gaining share in the higher-value categories of A4 and A3. Supplies performed as expected, down 3% in constant currency, and we drove favorable pricing and market share gains that were more than offset by installed base and usage headwinds. Yet we delivered strong Print operating margin, up year-over-year and above the high end of our range, reflecting rigorous cost discipline and pricing actions, as well as the favorable impact of grant funding received in the quarter. We continue to execute our accelerated Future Ready Plan across process efficiency, automation, portfolio optimization and operational excellence.

And as Enrique mentioned, we now expect to achieve cumulative gross run rate savings of at least $2 billion by the end of fiscal year 2025, with no change to our estimated restructuring charges of $1.2 billion for the program. These incremental structural savings continue to be a key lever to help offset macro and geopolitical uncertainties while also continuing to fuel investment in our key growth areas and AI innovation, all designed to position us well for long-term sustainable growth.

Now, let me move to cash flow and capital allocation. Our cash flow from operations was roughly $38 million in the quarter. And as expected, free cash flow was slightly negative due to the timing of payments for intentional inventory actions we took in the prior quarter as part of our overall tariff mitigation. Those payments resulted in a decrease in DPO and corresponding increase in our cash conversion cycle in Q2, also as expected.

Lastly, we returned close to $400 million to shareholders through both dividends and share repurchases. A planned debt refinancing ahead of an upcoming maturity contributed to us finishing the quarter slightly above our target leverage range. So, in line with our stated policy, with a temporary increase in leverage, we limited our repurchase to offsetting stock compensation dilution.

As we look ahead, we will continue to navigate a dynamic environment that may be impacted by a continuing evolution in global trade policy, broader macroeconomic trends and the associated impact on customer demand. For that reason, we believe it is prudent to moderate our guidance for the second half of the year to reflect this.

In our guide, we have accounted for the added costs driven by the current tariffs in place and associated mitigations, including leveraging our supply chain flexibility, Future Ready cost reductions and pricing action. We were able to mitigate part of these costs in Q2, and we are confident that we will fully mitigate them by Q4.

In Personal Systems, while we expect to continue to gain share, we now expect the PC market to grow low single digits for both the second half and full calendar year, given the uncertain macro environment. We still anticipate commercial PC catalysts, including the Win 11 refresh and AI PC adoptions to drive solid revenue growth in the back half of the year. And we expect the actions we are taking to offset the cost of tariffs to gain full traction in the second half, leading to sequential improvement in Personal Systems margins in both Q3 and Q4.

In Print, we continue to expect the market to decline low single digits for the calendar year, with the second half of the year declining closer to mid-single digits, in line with industry experts. We also expect our operating margin to continue to be near the top of our 16% to 19% long-term range for the year.

Beyond the segments, we expect Corporate Other to be slightly higher, approaching $1.1 billion, as we integrate the operations of our Humane asset acquisition into our technology and innovation organization.

With this all in, we now expect FY 2025 non-GAAP diluted net earnings per share to be in the range of $3 to $3.30 and FY 2025 GAAP diluted net earnings per share to be in the range of $2.32 to $2.62.

Turning to Q3. In Personal Systems, we expect revenue to grow high single digits sequentially as we continue to see strength in Commercial aligned with our Future of Work efforts and pricing actions. And we expect Personal

Systems margins in the lower half of the 5% to 7% range, improving sequentially as a result of the mitigation efforts we are driving.

In Print, we expect Q3 revenue growth to perform better than typical seasonality on incremental hardware placements and pricing actions. We expect operating margins solidly within our 16% to 19% range as we continue to focus on profitable unit placement, tariff mitigation and disciplined cost management.

With all of this, we expect third quarter non-GAAP diluted EPS to be in the range of $0.68 to $0.80 and GAAP diluted net earnings per share to be in the range of $0.57 to $0.69.

In line with our revised earnings, particularly in Personal Systems, where we have a negative cash conversion cycle, we now expect free cash flow to be in the range of $2.6 billion to $3 billion for FY 2025. With regard to working capital, we expect our cash conversion cycle to also be impacted by the timing of purposeful actions we are taking to mitigate the fluidity of the tariff situation.

It is important to note, however, that we not only expect the impact of these actions on working capital to be temporary, but as mentioned earlier, we also expect to fully mitigate the current cost of tariffs by Q4. And on our balance sheet and capital allocation, given the impact of tariffs, we expect our leverage ratio to continue to be above our target range in Q3. That said, we remain fully committed to returning approximately 100% of free cash flow to shareholders over time as long as our gross leverage ratio remains under 2 times, and we do not see more attractive investment opportunities.

In closing, we responded quickly to the changing market dynamics in the quarter to address headwinds from a rapidly changing trade environment. We remain focused on what we can control and are confident that the actions we are taking are the right ones to position us for long-term profitable growth.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. And we will now begin the question-and-answer session. [Operator Instructions] And our first questioner today will be Erik Woodring with Morgan Stanley. Please go ahead.

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

Q

Thank you so much for taking my questions. Enrique, maybe just to start. Can you maybe add a little bit more context around your expectations for the PC market in the second half of the year? What is causing the guide down? Is it large enterprises weaker? Is it small enterprise weaker – excuse me, SMB that's weaker? International markets weaker? You've talked about raising prices. So, I just love a little bit of context – a little more context on kind of PCs in the second half of the year, including any channel inventory comments.

And then big picture, does this really mean that kind of Windows 11 refresher is really not a catalyst that we need to think about if we're growing low-single digits during the refresh period? Just a little bit more context would be helpful. And then I have a quick follow-up. Thanks.

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

A

Sure. Thank you, Erik. So, let me try to answer all the questions you have in your question. First of all, in Q2 and in the first half, we have seen strong demand on the PC side, especially in Commercial, as reflected in our results. When we think about the second half, though, we thought it was important to be more prudent in the estimation that we have for the market, given a few of the trends that we see.

First of all, we are, today, in a very different economic situation from where we were a few months ago in terms of both consumer and business confidence. Second, we have seen announcements across the industry for price increases in the second half, and we think the combination of both will potentially have an impact in the demand that we see.

We are not integrating any effect from channel inventory. All of them are under control or under good – in a healthy position. We think that the impact will be both for Consumer and Commercial. And again, it's more a matter of prudency as we look at the second half more than we saw any trends in Q2 that we thought were going to be impacting the overall market size in the second half. Our plan and our goal is to grow share in that market. And of course, if the market is bigger than what we are expecting today, this should be reflected in our results.

Karen L. Parkhill
Chief Financial Officer, HP, Inc.

A

And I would just add, Erik, that Win 11 does remain a catalyst for the back half. And if demand comes in stronger than our moderated guide, that will be reflected in our results.

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

Q

Okay. Great. I appreciate all that color, guys. Thank you so much for that. And then maybe a follow-up. Enrique, I would just love if you could give a little bit more kind of high-level color for your growth businesses. I think it would help us all better understand kind of two key metrics there. First, just when you add up all of the growth businesses that you alluded to in your presentation, how big are they? What percentage of revenue are Personal Systems or Print? Any color that you could share on the size there? And then how fast are they growing? I appreciate the commentary on sequential growth, but I assume many of these businesses have different seasonality. So, just how big are these businesses? How fast are they growing year-over-year? And how should we think about growth of these businesses, say, over the next one to three years? Would just love to get better context on that. Thanks so much.

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

A

Thank you, Erik. So, we haven't disclosed the overall size of the businesses. Let me tell you, the two key metrics we have shared before that continue to be true is they are growing faster than the core businesses, and the gross margin is also higher than the gross margin of the core businesses. So, these two key factors continue to be true. Within growth businesses, we include businesses like AI PCs where we have seen very solid growth, not only quarter-on-quarter, but year-on-year. We said that our goal is for AI PCs to represent more than 25% of the PC business by the end of year, and we are on track to meet that goal. Within growth businesses, we have also our Workforce Solutions business on services and consumer services. Both of them have very solid growth in the quarter. Within the growth businesses, we have workstations that had a very solid growth performance during the quarter, industrial print. So, overall, they performed well, they performed as we were expecting, and they're a significant part of why we continue to see the second half stronger than the first half because they will continue to drive growth for the company.

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

Q

Got it. Thanks so much.

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

A

Thank you, Erik.

Operator: Our next question comes from the line of Michael Ng with Goldman Sachs. Please go ahead.

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good afternoon. Thank you for the question. I have just two, both in Personal Systems. First, just on Personal Systems margins, it's encouraging to hear that you'll return to the long-term range next quarter. I was just wondering if you're assuming that you'll be in that 5% to 7% range for the full year as well? And what are some of the key swing factors that you're watching for? And then secondly, I was just wondering if you could comment on whether you saw any Personal Systems demand pull-in in this past quarter ahead of any prospective tariffs and the current outlook there. Thank you.

Karen L. Parkhill
Chief Financial Officer, HP, Inc.

A

Yeah. Thanks, Michael, for the question. In terms of PS margins, yes, we do expect our margins to be in the 5% to 7% range for the full year. Given the impact in Q2 for the full year, it's likely to be in the lower half of that range, but with good sequential improvement. And...

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

And in terms of pull-in, we saw some pull-in in the PC space into Q2. But at the overall level, fairly small. Our estimation, having look at achievement data, sell-out data, is that less than 1 point of growth was driven by pull-in. So, it's a relatively small number overall. Of course, if we look at North America sales, it would be bigger because it will represent a bigger percentage. But again, overall, at the company level, was less than 1%. And this is the case for PCs. We didn't see any pull-in for Print.

Michael Ng
Analyst, Goldman Sachs & Co. LLC
Q

Thank you, Enrique. Thank you, Karen.

Operator: Our next question comes from Asiya Merchant with Citigroup. Please go ahead.

Asiya Merchant
Analyst, Citigroup Global Markets Canada, Inc.
Q

Great. Thank you very much. A couple ones. One, on just AI PCs. I know you're still pretty bullish on AI PCs. But if you can just help us understand what are some of the killer applications that you hear from your end customers on this mix shift towards AI PCs? And then within your expectations for PS Systems growth, how should we think about the impact of pricing and mix shift towards these AI PCs within your overall growth expectations for that segment? And then I have a quick follow-up. Thank you.

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

Thank you. So, overall, as I said before, we are very pleased with the progress that we see in AI PCs. Our goal is that they will be more than 25% of the mix of PCs by the end of the year, and this continues to be the case.

In terms of key applications, what we have seen is a large number of software companies introducing solutions that utilize the capabilities of AI PCs. We had more than 100 ISVs supporting that now, and this number is only growing. And this is why we think that the penetration is going to continue to grow because if you are in the Commercial space and you buy a PC today, you want to be able to take advantage of those capabilities as software will be available. That's the key message we make to customers. And as you can see from the progress we are making is resonating.

In terms of the impact it will have, you 're correct, it will have an impact on average selling price. The goal that we have shared before is that they will represent around 50% of the total shipments of PCs three years after introduction, so about two years from now. We are on track to make that number. And at the average, they are between 10% and 20% higher price than regular PCs. But this, of course, will have an impact on the total value. Something relevant to highlight this quarter is that we introduced AI PCs for the mainstream. This was one of the major innovation announcements we made in Q2 that is going to continue to help to drive adoption and to drive growth in this category.

Asiya Merchant
Analyst, Citigroup Global Markets Canada, Inc.
Q

Okay. And then if I may – thank you for that. If I may on just free cash flow. I understand PCs are a negative cash conversion cycle and hence affecting. But just if you can help us understand the free cash flow margins ticking down a little bit this – in terms of your guide, that would help a lot. And what are the drivers for that? Thank you.

Karen L. Parkhill A
Chief Financial Officer, HP, Inc.

Yeah. No, thanks for the question. Our free cash flow guide that we revised does follow earnings. And so, in line with that earnings guide, we did reduce our free cash flow expectations for the year, but it's mainly driven by the reduction that we saw in earnings, which is really driven by the operating margin impact that we had this quarter. That, along with lower-than-expected working capital improvement, is what caused us to guide down. We still do expect working capital improvement, but just a little lower than we had anticipated given the fact that we're focused on doing everything we can to offset these trade-related costs. I would say it's important to note, though, that these working capital moves are temporary and they are purposeful actions really as we mitigate the fluidity of the situation.

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

Let me maybe provide some color on the working capital side. As we have said in the prepared remarks, we have diversified our supply chain, we have built factories in different places. And to operate those factories now, we need more working capital than we did in the past. Over time, we will optimize and we will make them more efficient. And this is what Karen was saying, this will be temporary, but we see a needed increase now as the supply chain has become more diverse.

Asiya Merchant Q
Analyst, Citigroup Global Markets Canada, Inc.

Thank you.

Operator: Our next question comes from Wamsi Mohan with Bank of America. Please go ahead.

Wamsi Mohan Q
Analyst, BofA Securities, Inc.

Yeah. Thank you. I was wondering if you could share a little more color on some of the mitigation impacts that you're putting in place. How much of this tariff impact you expect to offset from pricing? So, maybe some thoughts around what those price increases could look like and which areas of the market would you be targeting versus cost actions versus potentially moving supply chain? Any quantification there would be helpful. And I have a follow-up.

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

Let me provide more color on that, and maybe Karen also wants to complement. So, we have taken a lot of actions during the quarter to mitigate the change of the trade environment. Let me start by, we accelerated the shift of factories out from China into Southeast Asia, into Mexico, to a certain extent in the US, to mitigate the impact of the change.

A quarter ago, we shared that our goal was to have less than 10% of the products in North America being shipped from China by September. We have accelerated that, and we shared that now almost no products will be coming from China sold in the US by June. This is a very significant acceleration of the plan that we have.

We have also changed our logistics network. And for example, we have removed the US as a distribution hub for products that will be going to Canada or to Latin America, which I will avoid them having – we will avoid us having to pay tariffs. We have also taken additional cost actions, as Karen mentioned in the call. And also in a very targeted way, we have also taken price actions across the full portfolio, both in Personal Systems and Print to reflect the cost that we have seen. This, we have seen the market and the rest of competitors taking similar actions across the two industries. So, we see this as an industry change that will be being put in place at the end of Q2 and now in Q3.

Karen L. Parkhill A
Chief Financial Officer, HP, Inc.

And I would just add that we're not going to quantify what comes from price versus supply chain moves versus other cost actions. But on our Future Ready program, we did talk about driving an additional $100 million more in savings. And those are really – we targeted higher goals for many of the savings opportunities that we're already working on. That included the consolidation of some of our teams under our new TIO organization, also driving more simplified management layers and locations, and reduction in IT applications throughout. And as a result, these actions are now yielding more upside than we initially anticipated and will be realized sooner than planned. And then lastly, I would just note, as we said before, that by the time we exit this year in Q4, we expect to fully mitigate the cost of these current tariffs.

Wamsi Mohan Q
Analyst, BofA Securities, Inc.

Okay. Thanks for that color. And as my follow-up, you are actively moving the supply chain away from China, but you also noted like areas like Vietnam, Thailand, Mexico, Philippines. What gives you confidence that your moves, given sort of we still don't know where reciprocal tariffs might end up, that these moves are going to be optimal. What are some of the things that you're thinking through? And how quickly would you be able to shift production between these areas as you think about what might happen potentially with reciprocal tariffs? Thank you.

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

Yeah. I think you're right. We are in a fairly fluid environment, so I think I don't want to speculate on what could happen and what changes we will do. I think what you have seen is we have reacted very fast to the changes that we saw in April. We have been able to rebalance supply chain and accelerate some of the plans that we have. We will be fully compensating for that in about two quarters by Q4, as Karen just said. And we will respond in a similar way to whatever changes happen going forward. We will look for the opportunities, we will optimize the supply chain, and we will respond swiftly to those changes.

Wamsi Mohan Q
Analyst, BofA Securities, Inc.

Thank you very much.

Operator: Our next question is from Samik Chatterjee with JPMorgan. Please go ahead.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

Question. And maybe if I can start off with the Print margins in the quarter, again very solid margins. Maybe if you can just help us with sort of the driver of the margin out performance you had there? How much of that is maybe some business drivers versus the Future Ready cost actions that you're taking? And particularly in relative to the guidance you have for 3Q, you talked about above seasonal revenue growth as well, but moderating the margin expectations. So, is there a certain one-off driver there that we should think of or is that more just in terms of business mix to sort of really play out in the quarter? And then I have a follow-up. Thank you.

Karen L. Parkhill
Chief Financial Officer, HP, Inc.

A

Yeah. Thanks, Samik, for the question. So, on our Print margins, we were pleased with the fact that they were – it continued to be high and above the high end of our range, and that reflects rigorous cost discipline as well as the pricing actions we were taking to offset the trade-related costs. And we mentioned the favorable impact of a grant funding received in the quarter. It was a multi-year grant from the Economic Development Board of Singapore, and that was in support of activities that we've had there for over 20 years. I would just say it's a long-term grant, and it was signed in Q2, but it was retroactive to the beginning of the calendar year. So, the amount booked in Q2 was a little higher than the quarterly rate that we will see going forward.

And in terms of our confidence in Print margins going forward, we do expect margins to be solidly within our 16% to 19% range in Q3, and that's really because we expect to drive some incremental hardware placements. But then we also expect sequential improvement in Q4 with a higher supplies mix that we typically have in that quarter, along with the full benefit of the traction that we're making on trade-related actions and Future Ready cost savings. So, hopefully, that helps.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

Yeah. No, thank you for that. And the second question is just a clarification on the PS margins and the sequential improvement to expect in Q3 and Q4. From your prepared remarks, Q3 does have a part quarter benefit from the supply chain changes that you're making. But as we look from Q3 to Q4, is it really the improvement, the realization of a full quarter benefit of the supply chain changes or is there incremental benefit from pricing as we move from Q3 to Q4 as well? Thank you.

Karen L. Parkhill
Chief Financial Officer, HP, Inc.

A

Yeah. So, we are expecting strong improvement in Q4, and I'll start with the fact that Q4 is typically our strongest quarter for both Print and PS. And this year, we do expect continued momentum in the PC market, driven by Commercial. We also see Q4 as typically our highest season with an increase in consumer demand tied to back-to-school and the holiday purchases. And we have many new products for customers to choose from.

And then also, we talked about the cost side. We've implemented these moves in the manufacturing supply chain that are going to take broader traction as we proceed through the year. And then we're on track to achieve the additional $100 million to achieve the $2 billion in broader cost savings as we exit our Future Ready program at the end of the year. And of course, pricing will play a role too. Altogether, we expect our PS margins to be in the lower half of the 5% to 7% range in Q3 and improve sequentially. So, hopefully, that helps.

Samik Chatterjee
Analyst, JPMorgan Securities LLC
Q

Yeah.

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

And I think it's probably important to highlight that based on the guide that we are providing that we have high confidence for, we will be exiting Q4 with both the company with revenue growth at the company level and with both businesses within the long-term ranges that we have shared before, which is a sign of confidence for the future.

Samik Chatterjee
Analyst, JPMorgan Securities LLC
Q

Great. Thank you. Thanks for taking my questions.

Operator: Our next question comes from Amit Daryanani with Evercore. Please go ahead.

Amit Daryanani
Analyst, Evercore Group LLC
Q

Yes. Good afternoon, everyone. I have two as well. I guess maybe just to start off with Enrique, what you were talking about the end right now. You're sort of embedding a very sizable step-up in earnings in your fiscal Q4. I think the implication is you'll do $1 for earnings power in Q4. Can you just touch on how much of that ramp-up from, call it, the $0.70 run rate you have right now to $1, how much of that is revenue driven versus driven by all the cost reduction initiatives that you have in place? Would be good to understand just how much of this is controllable versus not perhaps.

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

Thank you. It's a combination of both. In Q4, as Karen just said, we expect to see a strengthening of demand compared to Q3. And if you look at normal seasonality, this is what happens, for example, in the Consumer space, driven by both back-to-school and the holiday season. Q4 is a very strong quarter. And in the Commercial side, we continue to expect to see the demand that we have seen in the previous quarters, driven by Windows 11, driven by the refresh of the installed base, and driven by AI. All this will have an impact on the demand side.

And then on the margin side, on the cost side, both the pricing actions that we are taking, but also all the work on costs, both redesigning supply chain, the impact of Future Ready will have an impact in the margins on Q4 sequentially, and this is what gives us confidence that we'll be able to achieve these numbers.

As I said at the beginning, we have moderated our growth expectations for PS especially, but we continue to expect that the PS business will grow in the second half compared to where it was a year ago.

Karen?

Karen L. Parkhill
Chief Financial Officer, HP, Inc.
A

I would just reiterate that much of our confidence is because of the actions that we're taking today that we know just take time and will gain full traction in Q4.

Amit Daryanani
Analyst, Evercore Group LLC

Q

Fair enough, and that's helpful to just kind of understand those dynamics. You've also talked about a couple of issues that are impacting your fiscal 2025 EPS guide, right? It's about 40% impact right now. At a very high level, is there a way to think about how much of the 40% impact is from just the direct trade tariff-related issues that you have versus demand potentially moderating? Is there a way to think about those two buckets and how big of an impact each one is causing?

Karen L. Parkhill
Chief Financial Officer, HP, Inc.

A

Yeah. I would think about it this way, that the impact that we had in this quarter of 100 basis points on our margin and $0.12 of EPS was due to the tariff-related impact that we weren't able to fully mitigate. And as we look ahead in the back half, the reduction in our guide is mainly driven by us choosing to prudently moderate our growth expectations given the macroeconomic environment.

Amit Daryanani
Analyst, Evercore Group LLC

Q

Great. Thank you.

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

A

But in an indirect way, also the change of expectations is related to the new trade environment and to the new trade situation, not directly on cost, but just on demand.

Amit Daryanani
Analyst, Evercore Group LLC

Q

Fair enough. Thanks.

Operator: And your next question is from the line of David Vogt with UBS. Please go ahead.

David Vogt
Analyst, UBS Securities LLC

Q

....moving the manufacturing to avoid the near-term tariffs, and you've noted that you expect higher working capital. But my question is, what are the longer-term impacts from these changes, particularly to your expense structure and margin for the new configuration versus the prior configuration in fiscal 2026 and beyond? Thanks.

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

A

Hello. As we said before, we expect to finish the year within the range that we had provided before. And at this point, this continues to be the expectation for the year 2026 and beyond. We think that we can compensate the cost impact on tariffs. It takes us this time a couple of quarters, and this continues to be the assumption that we have going forward.

David Vogt
Analyst, UBS Securities LLC

Q

Thank you.

Operator: Our next question comes from the line of Tim Long with Barclays. Please go ahead.

Tim Long
Analyst, Barclays Capital, Inc.

Q

Maybe just on the first one on PC, one on Print. On the PC side, can you just talk a little bit about kind of price elasticity and what you've seen in prior cycles? It sounds like there might be some upward ASP pressure due to tariffs and everything else. If you could just talk about what you've seen traditionally in this time, do you think because of AI PC and enterprise and maybe an aged base, it's not as much of an issue?

And then second, on the Print-related businesses, could you just talk about competitive landscape and any kind of Yen movement that might have impacted or might be impacting competition either way there? Thank you.

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

A

Yes. I think in terms of elasticity, it's hard to compare the situation to previous situations given what is driving that. We have built some of that into our estimation for the second half and the more conservative plan or estimation for the market that we have put in place. And I think this is the best way to reflect kind of the changes and elasticity that we see.

In terms of Print, what we have seen quarter-on-quarter is that pricing has been more stable, so we haven't seen an improved repricing environment, but it has stayed stable versus what it was a quarter ago. And during the last weeks, most of the Print competitors announced price increases related to the changes in the trade environment. So, this will be reflected in the overall pricing environment in the market in Q3 and in Q4.

Tim Long
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: And our final question comes from the line of Alek Valero with Loop Capital. Please go ahead.

Alek Valero
Analyst, Loop Capital Markets LLC

Q

Hey, guys. Thanks for taking my questions. This is Alek, on for Ananda. So, my question, I actually have one more on PC pull-in. So, I know you mentioned you saw a very small impact during the quarter, but I wanted to see if there's any impact to second half of the year.

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

A

Again, the impact was so small that, again, the company level has a very minimum impact. If we look at the US, it had more just because of mathematics of dividing the pull-in versus a smaller market. And we have reflected on that in the guide that we have for the second half and in the estimation that we have for the market.

Alek Valero
Analyst, Loop Capital Markets LLC

Q

Got it. Thank you for that. Just a quick follow-up. Also on PCs, are you seeing customers buy richer PC configurations yet, specifically for the purpose of GenAI?

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

A

Well, we have seen significant growth of the AI PC category and the mix continued to improve, of course, year-on-year, but especially quarter-on-quarter, which is more relevant at this stage. So, clearly, they are having – customers are valuing the new functionality, the new performance of these products, and this is driving the improvement in mix.

Alek Valero
Analyst, Loop Capital Markets LLC

Q

Got it. Thank you.

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

Thank you. So, I think that we are approaching the end of the call. So, again, thank you, everybody, for participating and joining the call today.

I would like to close the call confirming our confidence in three areas. First, the confidence in our Future of Work strategy to continue to drive growth. Second, the confidence in the team on how to respond and how to navigate any type of environment, responding quickly and decisively. And finally, our confidence in our ability to continue to create shareholder value.

Thank you, everybody, for joining today, and looking forward to continue the conversation in the coming weeks. Thank you.

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