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HP, Inc. (HPQ)

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MANAGEMENT DISCUSSION SECTION

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

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

Orit Keinan-Nahon

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

Good afternoon, everyone, and welcome to HP's third quarter 2025 earnings conference call. With me today are Enrique Lores, HP's President 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 webpage at investor.hp.com.

As always, elements of this presentation are forward-looking and are based on our best view of the world and our 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 obligation and does not intend to update any such forward-looking statements. We also note that the financial information discussed on this call reflects estimates based on information available now and could differ materially from the amounts ultimately reported in HP's SEC filings.

During this webcast, unless otherwise specifically noted, all comparisons are year-over-year comparisons with the corresponding year-ago period. In addition, unless otherwise noted, references to HP channel inventory refer to Tier 1 channel inventory, 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. Let me start by saying we made solid progress against our goals and key strategic initiatives in Q3. We continued to execute with discipline and focus, delivering on our commitments and advancing our ambition to be a leader in the Future of Work.

Today, we will take a closer look at our third quarter performance, highlight some of our newest innovations, and discuss our Q4 outlook. Beginning with our performance, I am pleased to report that we delivered a fifth consecutive quarter of growth in Q3. Top line revenue increased 3% year-over-year, driven by strong performance in Personal Systems.

This momentum was fueled by continued Windows 11 refresh, AI PC adoption and services growth. We also drove collective double-digit growth year-over-year and sequentially in our key growth areas. Our operating profit margins for both Print and Personal Systems were in line with our guidance. And non-GAAP EPS was slightly above the midpoint of our guide, reflecting a sequential improvement of 6%. This results demonstrate our ability to execute our plan and adapt quickly to the evolving trade environment.

We are on track to reach our Future Ready gross annualized savings of \$2 billion dollars by the end of fiscal year 25, which we expect will help drive continued improvements in operating profit. At the same time, we are making solid progress on our actions to mitigate higher trade-related costs, including manufacturing diversification, cost reduction and pricing adjustments.

This quarter, as planned, nearly all products sold in North America are now built outside of China, helping to further reduce trade-related costs. We continued to ramp up production across Vietnam, Thailand, Mexico and the US. Most importantly, we have done what we said we would. We have demonstrated we can remain agile in responding to external pressures, while staying focused on our long-term strategy.

Now, let me share more color on the performance of each business unit. In Personal Systems, revenue grew 6% year-over-year, above our expectations. We continued to shift our mix to higher-value segments, such as AI PCs, commercial premium and services. We saw strong year-over-year growth in both commercial and consumer segments. Commercial performance was supported by the Windows 11 refresh and increased AI PC adoption.

We are very pleased with accelerating demand for the AI PC category, which grew revenue double-digit sequentially.

It has surpassed our expectations with shipments continuing to ramp, now reaching over 25% of our mix, a quarter ahead of our plan. Consumer growth was supported by a strong back-to-school season. In our key growth areas, we delivered double-digit revenue growth in Advanced Compute Solutions.

In services, momentum continued with strong revenue growth year-over-year, driven mainly by digital services and managed services. Yet, we did see softer demand in Hybrid Systems, as companies are delaying some of their IT projects. Our installed base of active AI PC users is growing significantly and positioning us well for future AI-driven innovations.

We are seeing strong momentum in the AI PC ecosystem with a number of software companies introducing solutions, growing by double digits quarter-over-quarter. We are working closely with Microsoft and silicon providers to capture the opportunity created by the AI PC platform. Key ISV partners such as Adobe and Zoom are shifting workloads locally to take advantage of the NPU.

We grew share in high-value categories, especially in premium segments. This includes year-over-year and sequential gains in PC Commercial premium, Consumer premium and AI PCs. Last quarter, we committed to actions to return our Personal Systems operating margin to its long-term target range. I am pleased to report we achieved that, delivering an operating margin back into our target range.

Turning to Print. Revenue declined 3% in constant currency, as expected. Our key growth areas in Print continued to perform well and had strong growth year-over-year. While we continued to take actions to mitigate increasing trade-related costs, we saw overall a more aggressive pricing environment.

Demand in the Office segment was slightly softer than anticipated, particularly across North America and parts of Europe. However, we maintained our share position in Office and we continue to focus on profitable unit placements. In Home, we maintain discipline in a competitive pricing environment. Supplies revenue performed as expected.

Diving deeper into our key growth areas, Consumer Subscriptions had a strong ramp in new subscribers of our All-in Plan. We had key wins with Workforce Solutions in industries, such as Finance, Manufacturing, Retail and Public Sector. We saw another quarter of strong growth in Industrial Graphics with share gains year-over-year, reflecting the strength of our portfolio.

Now, let's take a closer look at recent innovations that are positioning us as a leader in the future of work. In Q3, we advanced our portfolio of AI-powered solutions that help businesses drive growth and employees achieve professional fulfillment. On the commercial side, our AI PC lineup received industry recognition. Our EliteBook Ultra was named top AI PC in the CRN Tech Innovator Awards. It was noted for its design, performance, and impact on productivity.

Our Workforce Experience Platform was recognized in the Enterprise IT Management category, praised for its ability to reduce digital friction and improve IT efficiency. Since launch, the platform has been deployed in 40 countries, and we plan to expand to more than 30 additional countries in the coming months.

We are redefining how people connect and collaborate. We introduced HP Dimension with Google Beam, a video communication tool that uses six cameras and AI to generate 3D video of participants, designed to enhance

remote collaboration. And we are excited to bring advanced AI capabilities to a broader audience with our OmniBook 5 notebook. For the prosumer, it delivers high performance and up to 34 hours of battery life, empowering customers to stay productive longer.

In our Print portfolio, we are integrating AI to drive intelligent automation and customer-centric design. HP Nio, an AI-powered chatbot for industrial print, is helping print shops improve production efficiency. In Large Format, HP Build Workspace, an AI vectorization tool, helps architecture, engineering and construction professionals reduce drafting time by up to 80%.

Responsible innovation and sustainability are foundational to our Future of Work efforts, and we continue to demonstrate meaningful measurable impact. Today, 99% of HP home and office printers, desktops, notebooks, displays and workstations incorporate recycled content. We have reached 100% renewable electricity across our US operations, marking a significant step toward our net-zero goal.

And in partnership with the YMCA, we're establishing Digital Hubs that have already reached over 700,000 people worldwide, helping them succeed in the digital age. In addition, HP is pleased to support the White House initiative to advance AI education for America's youth. This is an important step toward equipping the next generation with the skills needed to thrive in the future of work.

As we look ahead, we remain confident in the strength of the PC market in 2025. We expect the market to grow mid-single digits in the second half, with continued strong momentum from Windows 11 refresh and the AI PC adoption. We believe these catalysts will continue to drive PC market growth in 2026. We expect the Print market to decline low-single digits in 2025 and at a similar level in 2026; however, our strategy is focused on protecting the operating profit contribution of the Print business to the company.

We will continue focusing on reducing unprofitable units by shifting to Big Tank, increasing lifetime customer profitability through growth in our consumer subscription business, gaining share in the higher-value Office categories, growing our key growth areas, and maintaining cost discipline.

AI is also opening new possibilities to transform how we operate and compete. Beyond driving structural cost reductions, we see tremendous potential to automate additional workflows, streamline decision-making, and accelerate innovation across the business. These capabilities will help us reduce complexity and drive lower costs. You will hear more about this from us in the quarters ahead.

Externally, we recognize there is continued uncertainty in the global trade environment. We have planned for today's landscape and have proven our ability to respond quickly to any future changes. Through our actions, we have strengthened our operational agility and have full confidence in our ability to navigate evolving conditions.

As we continue to adapt to this dynamic environment, engagement with investors is a top priority. We are looking forward to sharing our longer term plans during our Investor Day in early 2026. There we'll provide updates on our progress and explore the exciting opportunities ahead to advance our strategy.

Before I close, I want to thank our employees for their dedication, resilience and customer-first mindset, which have been key to our progress. We know what it takes to deliver results and be a leader in the future of work, and we are executing with focus.

Now, let me hand it over to Karen.

Karen L. Parkhill

Chief Financial Officer, HP, Inc.

Thank you, Enrique, and good afternoon, everyone. We are pleased with the progress we've made in the quarter to advance our strategy to lead the future of work, while navigating an evolving market environment and delivering on our financial commitments. We drove another quarter of solid revenue growth with continued momentum in Personal Systems, fueled by AI PC and Win 11 refresh activity, and strong performance in our key growth areas. In fact, we delivered double-digit sequential growth in Personal Systems, resulting in strong free cash flow in the quarter.

In Print and PS, we executed decisively on the actions we laid out to mitigate trade-related headwinds and are pleased with the meaningful progress we made in the quarter, including accelerating supply chain resiliency, cost reduction, and pricing action. As a result, we were able to mitigate the majority of tariff costs in Q3, while delivering operating margins within our expected ranges for both businesses, and non-GAAP EPS slightly above the midpoint of our guidance range.

Taking a closer look at the details of the quarter. Net revenue was up 3% year-over-year, both nominally and in constant currency, with growth across all regions. In constant currency, Americas and EMEA each grew 1% and APJ was up 11%, with particularly strong Personal Systems performance in China.

Gross margin was 20.5%, down year-over-year with a higher mix from Personal Systems, increased trade-related costs, and unfavorable currency impacts. We offset those headwinds in part with disciplined pricing actions and cost management. As anticipated, non-GAAP operating expenses were up year-over-year. We drove our Future Ready cost plans and maintained strong expense management, while importantly investing in growth with key strategic and go-to-market initiatives.

All in, our non-GAAP operating margin was 7.1%, down year-over-year and in line with our expectations. Finally, with a diluted share count of approximately 954 million shares, our non-GAAP diluted net earnings per share was \$0.75 cents and our GAAP earnings per share was \$0.80 cents, helped by favorable tax adjustments in the quarter.

Now, let's turn to segment performance. We delivered our sixth consecutive quarter of solid growth in Personal Systems with revenue up 6%, above our expectations, on 5% unit growth and increased ASPs. We continue to shift mix toward premium categories, while executing disciplined pricing actions to help mitigate cost increases.

Sequentially, revenue was up 10% and units were up 13%, on seasonal strength and overall share gains. And, momentum continued in our key growth areas with strong performance in AI PCs, Advanced Compute and Workforce Solutions, offset in part by softness in Hybrid Systems.

We drove Commercial revenue up 5% on 3% unit growth, with favorable pricing and a mix shift toward premium. Consistent with our strategy, we gained share in Windows-based Commercial PCs, as refresh activity fueled by Win 11 and AI PCs continued. Consumer Revenue and units grew 8% with strong performance in North America along with China, driven by Gaming. And, robust back-to-school seasonality and share gains drove Consumer units up 34% sequentially. Importantly, as promised, we drove Personal Systems operating margin back into our guidance range, at 5.4%, with our planned mitigation actions.

Turning to Print. Our results reflect a slightly softer-than-expected Office market, and a pricing environment that remained competitive despite rising trade-related costs across the industry. In this dynamic environment we maintained our focus on profitable unit placement, prioritization of higher-value categories, and disciplined cost

management. We also drove strong performance in key growth areas, including double-digit growth in Consumer subscriptions and strong performance in Industrial fueled by double-digit hardware growth.

Looking at the details, Print revenue declined 4% year-over-year, or 3% in constant currency, with market-driven hardware declines in both Consumer and Commercial. Supplies performed as expected, down 3% in constant currency, and we continue to drive market share gains and favorable pricing that partially offset installed base and usage headwinds. And, in line with our guidance, we delivered an operating margin of 17.3%, solidly within our target range and flat year-over-year, as we offset increased trade-related costs with pricing actions and cost reductions.

Turning to our Future Ready cost plans. We are pleased with the progress we have made to drive greater efficiency and effectiveness across the company. This includes leveraging AI capabilities internally to drive automation and optimization of processes to better support our customers, partners and employees.

We are well on track to hit our total program goal of at least \$2 billion in annualized gross run rate savings by the end of our fiscal year. These incremental structural savings enable our continued investment in our key growth areas and AI innovation, as well as to help us to mitigate macro uncertainties.

Now, let me move to cash flow and capital allocation. We generated approximately \$1.7 billion dollars in cash from operations in the quarter and roughly \$1.5 billion in free cash flow, in line with our expectations. We also improved our cash conversion cycle this quarter, driving days payable up with higher manufacturing activity.

Lastly, we returned more than \$400 million dollars to shareholders through both dividends and share repurchases. As we signaled at the beginning of the quarter, our leverage ratio remained slightly above our target range. So, in line with our stated framework, we limited our repurchase to offsetting stock compensation dilution. Of course, we remain committed to returning approximately 100% of our free cash flow to shareholders over time as long as gross leverage remains under two times and there aren't better return opportunities.

Looking forward to the fourth quarter, we will continue to focus on disciplined execution, while maintaining the agility needed to respond to changes in a fluid environment. Our Q4 guide takes into account current global tariff rates, as well as the market growth expectations that Enrique just covered.

By segment, in Personal Systems, we expect Q4 revenue to be in line with prior year seasonality, driven by the typical holiday uptick in Consumer, continued Windows 11 refresh and AI PC adoption. And we expect Personal Systems margin to be solidly in our 5% to 7% target range, improving sequentially, as the mitigation actions we have taken gain full traction in the quarter.

In Print, we also expect Q4 revenue to be in line with prior year seasonality, and operating margin to be near the top of our 16% to 19% range, reflecting a higher Supplies mix along with disciplined pricing and cost management, offset in part by increased trade-related costs. We continue to expect Free Cash Flow to be in the range of \$2.6 billion to \$3 billion for fiscal year 25, including approximately \$400 million in cash restructuring charges for the year.

We expect our non-GAAP tax rate to remain consistent with prior periods. Of note, we appreciate the recently enacted One Big Beautiful Bill Act, which will help keep our tax rate more consistent and enable continued investment in long-term growth opportunities.

With all of this, we expect fourth quarter non-GAAP diluted EPS to be in the range of \$0.87 cents to \$0.97 cents and GAAP diluted net earnings per share to be in the range of \$0.75 cents to \$0.85 cents. Looking beyond Q4, we expect continued momentum in the refresh catalyst, driving growth in the PC market, and we are confident in the measures we are taking to capitalize on opportunities in the Print market and to protect operating profit. I will share more on our Fiscal 26 outlook on our Q4 earnings call.

In closing, we delivered solid results in the quarter, while executing well against our strategic initiatives. We are confident that the actions we are taking are the right ones to enable us to respond swiftly to near-term market dynamics, while continuing to invest 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 question today will be from Krish Sankar with TD Cowen. Please go ahead.

Steven Kinney Chin

Analyst, TD Cowen

Q

Hi. Thanks so much for taking my questions. This is Steven calling on behalf of Krish. I guess, the first one for either Enrique or Karen. I was just kind of curious about the tariff-related costs in the quarter. Are you able to help quantify what the total impact was, whether it's on a dollar basis or maybe in terms of the impact to gross margins? And given all the actions you've taken, how much are you able to offset as opposed to having to absorb by the company?

Karen L. Parkhill

Chief Financial Officer, HP, Inc.

A

Yeah. Thanks for the question, Steven. We made meaningful progress in the quarter with our mitigation actions, which included accelerating our supply chain to optimize driving cost reduction and taking pricing actions. And as a result, we were able to mitigate the majority of the tariff costs in Q3, while still delivering EPS slightly above the midpoint of our guide. As we've said, we do expect to fully offset these trade-related costs as quickly as possible. The full benefit of our mitigating actions, really depending on the scope, can take a little bit of time. But again, we expect to fully mitigate as quickly as we can.

Enrique Lores

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

A

And I would say, we are pleased with the progress we made. As we have said before, this quarter, we completed the change of manufacturing and our products going to the US – or great majority of products going to the US are not built in China anymore. We also drove additional cost actions and we did selective price increases. Overall, we made good progress. And this is why we are confident in our ability to mitigate tariffs down the road as we will continue to execute on these plans.

Steven Kinney Chin

Analyst, TD Cowen

Q

Great. Thank you for that. And as my follow-up, one question on the Print business. I guess, anecdotally, just given the number of large, I guess, enterprises around the world that have announced return-to-office initiatives so far this year, I guess, I'm a little surprised that there weren't any improvements to the outlook for the Print business. I guess, can you talk about any expectations perhaps going into fiscal 2026 on whether some of these return-to-office initiatives, if that might have a delayed growth impact into next year perhaps? Or is there some different dynamic about return-to-office initiatives in terms of spending on supplies and commercial hardware? Thank you so much.

Enrique Lores

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

A

Yeah. Thank you. I think there are two dynamics that we need to have in mind. First of all, from an investment perspective, we are seeing enterprise and commercial businesses prioritizing other areas above Print. For example, investments in AI or even investments in PCs. So, we think that this has impacted in the short term the sales of Print hardware in the office side.

On the other side, when we look at pages printed, and as you know this is the most fundamental variable to understand the health of the business going forward, we have not seen a deviation versus our plan, which means that down the road we will see the demand for printers come back because customers continue to print and there has not been a deviation there, which is in line with the return of the office assumptions that we were making. So, short-term impact on hardware, but not impact on supplies, which means in the long term, the business will come back as companies will have to build new hardware to complete or to make sure that the employees are having the right experience.

Operator: Your next question comes from the line of Amit Daryanani with Evercore ISI. Please go ahead.

Irvin Liu

Analyst, Evercore ISI

Q

Hi. Thank you for the question. This is Irvin Liu calling in for Amit. It's great to see your momentum in your AI PC product category. I think the sequential 25% growth was rather notable. But can you help us understand whether AI PCs carry a higher ASP or margin profile versus non-AI PCs?

Enrique Lores

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

A

Yes. So, let me confirm that we are very pleased with the growth that we are seeing in AI PCs and not only of the category by itself, but also how the ecosystem is being developed because, eventually, the demand for AI PCs is going to be driven by applications, and we are seeing more and more applications taking advantage of the new capabilities that the AI PCs have.

In terms of pricing, we can confirm the estimations that we had before. We have seen an uplift in pricing of AI PCs, compared to similar units that don't bring this capability. And we maintained the assumptions that we had shared before of the 5% to 10% price increase driven by AI PCs.

Irvin Liu

Analyst, Evercore ISI

Q

Got it. And then I have one for Karen as well. As I look at your Q4 EPS guidance, I think the sequential or seasonal increase in EPS for Q4 is at \$0.17 at the midpoint and it's higher than what we've historically seen. I'm

just kind of curious whether this is going to be driven by any sort of margin benefits from your [ph] Ready Next (00:32:47) program?

Karen L. Parkhill

Chief Financial Officer, HP, Inc.

A

Yeah. Thanks for the question, Irvin. We are seeing good momentum heading into fourth quarter. And in PS, we do expect sequential revenue growth, in line with the prior year seasonality. And that's really driven by the continued momentum in the Win 11 refresh and AI PC adoption, as well as we've got the holiday uptick in Consumer that we expect to happen strongly.

I'd say, more importantly, though, we do expect the PS OP rate to continue to improve as we continue to work to offset the headwinds of trade-related costs and commodity costs. And in Print, we also expect sequential revenue growth, in line with prior year seasonality, and sequential OP improvement to the top of our 16% to 19% target range, and that's really driven by seasonally higher supplies volume. So, we're confident in our Q4 guide.

Irvin Liu

Analyst, Evercore ISI

Q

Got it.

Enrique Lores

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

A

And to complement that, we also will see a bigger impact of some of the actions we took around tariffs. Some of the new tariffs were put in place at the end of last quarter, beginning of this quarter, and this we will continue to mitigate as time goes.

Irvin Liu

Analyst, Evercore ISI

Q

Understood. Thank you for the color.

Operator: Your next question comes from the line of David Vogt with UBS. Please go ahead.

David Vogt

Analyst, UBS Securities LLC

Q

Hey, guys. Thanks for taking my questions. So, maybe we go back to the PC market because, I think, Karen, you mentioned you expect normal seasonality in the PC market. And I guess, what I'm struggling with a little bit is you've had incredibly strong growth the last two quarters. And if I think about your business over the years, generally speaking, you don't have that degree of strength for, call it, three quarters in a row sequentially. Can you just maybe expand upon what gives you confidence in this side? And I think you also mentioned strength in, I guess, momentum into next year, and I know you mentioned AI PC, and obviously some other Windows 11 refresh dynamics, but a little bit more color there would help.

And I'll give you my second question at the same time. And so, maybe just help us understand kind of the margin dynamics within Print a little bit better. I know last quarter, you had the grant. This quarter, obviously, mix and some pricing dynamics probably hurt margins. Can you maybe walk us through kind of what's going to reverse a little bit in the October quarter to help get back towards the upper bound of that range from a Print perspective? Thanks.

Enrique Lores

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

A

Okay. So, let me take the first question, and Karen will take the second question. In terms of PC demand, I think there are different things to have in mind. First of all, Q4 versus Q3, in the Consumer side, there is always an increase of demand, driven by completing the back-to-school cycle and also preparing for holidays, and this always drives a sequential improvement.

In the Commercial side, we expect to continue to see two major drivers of growth. One is the Windows 11 refresh and second is AI PC. In Windows 11, year-on-year and quarter-on-quarter, we see an improvement in the funnel, meaning the funnel at the beginning of Q4 is higher than it was at the beginning of Q3, and also bigger than what it was at the beginning of Q4 last year. And Windows 11 is playing a key role there.

Second, what is also very important to assess long-term sales, when we look at where are we in the cycle, our estimate is that slightly more than 50% of the installed base has been converted to Windows 11, which means there is still going to be a positive impact, not only in Q4, but also in the earlier quarters of next year. And this is why we think the demand for PCs is going to continue in Q4. We projected that the growth of PCs will be mid-single digits for the second half and that there will be growth in fiscal year 2026.

Karen L. Parkhill

Chief Financial Officer, HP, Inc.

A

And on the margins, we're confident in our sequential improvement in Print margins. Our Q3 Print operating margin at 17.3% was solidly within our guidance range and in line with our expectations. We typically have lower supply sales in the summer months and that can cause some seasonality in the margins. But as we look into Q4, we do expect the Print margins to be at the top end of our range, and that's reflecting some higher supplies volumes as we saw very similar to last year along with disciplined pricing and cost management.

I know you also mentioned the grant last quarter. We did see a grant last quarter from the EDB that had a bit of a catchup from the beginning of the calendar year to be booked in the quarter, but it is a multiyear grant. And we are continuing to receive that grant this fiscal year and into future fiscal years.

David Vogt

Analyst, UBS Securities LLC

Q

Great. Thanks, Enrique. Thanks, Karen.

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

Wamsi Mohan

Analyst, BofA Securities, Inc.

Q

Yes. Thank you so much. I guess, Enrique or Karen, I don't – yeah, I know you spoke quite – gave quite a bit of color around Print margin just now, but I normally don't think of Print margins to be that volatile. But you just dropped 200 plus basis points on Print margin sequentially, and it's going to bounce back next quarter.

And, Enrique, you made some comments on sort of where you're emphasizing and de-emphasizing certain parts of the portfolio as well. So, if you were to pull those together and we think can be fast forward beyond sort of fiscal 4Q, are you thinking that the range for these Print margins is sort of going to be in this long-term range that you've given? Because you seem to be tracking at the higher end, even above the higher end in quite a few quarters.

And given some of the cost actions that you're taking, should we just be calibrating towards a higher range for Print margins?

Enrique Lores

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

A

Sure. Let me – a couple of comments. First, in terms of the changes quarter-over-quarter, what we have seen this year is very similar to what we saw last year. As Karen mentioned before, the biggest impact in Q3 was driven by the mix of supplies that was lower compared to Q2 and is lower compared to what we expect to see in Q4, and this really has a big impact. And again, we saw very similar performance a year ago. So, we don't think it's out of what we have seen in previous cases.

In terms of the projections long term, we are not changing our projections from what we have been seeing before. We continue to maintain the ranges that we have seen. As we have said before, having these ranges gives us the opportunity in a given quarter to be more aggressive placing units if this is what we decide to do, because we see that they will be profitable units. We have done this in the past and we want to have the ability to do that without getting out of the ranges we that we have.

In terms of the actions that we are taking for the Print business going forward, they are very consistent with conversations we have had in the past, Wamsi. We are going to continue to drive in the Consumer space a shift to more profitable units, especially Big Tank. We are going to continue to drive the improvements to capture more lifetime customer profitability by shifting the business to subscriptions and services. We see opportunities to grow share in profitable office categories.

And we see an opportunity to drive growth in the Industrial side that we have driven in the past and we will continue to do. And, of course, we are going to be very disciplined managing our cost structure and looking for any opportunity we have to improve productivity and increase efficiency. So it's very consistent with the plan that you have seen us executing before and we will continue to do that going forward.

Wamsi Mohan

Analyst, BofA Securities, Inc.

Q

Okay. Thanks, Enrique. And if I have a follow-up just on PCs. If you look at industry expectations, there is below normal seasonality based on whether it be ODM builds or other things that – third parties that we can look at below normal seasonal trends in the back half of this year and then even projections for a decline. You're kind of saying something very different, which is sequentially consistent with prior years and then growth next year. So is the implication here that HP is taking share? And if you are, where is that coming from? Any particular regions, any particular players? And where is that success may be coming from?

Enrique Lores

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

A

There are two comments. One is, our projections are consistent to what we have seen in the market, and we have seen strong Commercial demand in Q3. We have seen strong Consumer demand. And as I mentioned before, we don't think this is a pulling of demand. We think this is real demand, because this is not only happening in the US. We have seen this across multiple countries and across multiple geographies.

In terms of our projections going forward, they rely on the fact that we continue to see strong demand for AI PC, strong demand for Windows 11. And something I didn't mention before is also the fact that we expect ASPs to

continue to grow because of stronger demand and stronger growth in premium categories. This has been our strategy in the previous quarter and will continue to be going forward.

So, answering your question on share, you know that our goal and our objective is not to grow share for the sake of gaining share. Is to drive profitable growth. What we have been doing in the last quarter is growing share in the more premium segment of Commercial, Consumer, AI PCs, and this is going to continue to be our strategy going forward.

Wamsi Mohan

Analyst, BofA Securities, Inc.

Okay. Thanks, Enrique.

Q

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

Michael Ng

Analyst, Goldman Sachs & Co. LLC

Great. Thank you. I just have two as well, one for Enrique on Print, and one for Karen just on capital allocation. Enrique, on Print, you guys have talked a little bit about the more aggressive pricing environment, the demand in office softer than expected in North America and Europe. As you look out to the rest of this year and into next, I was wondering if you could just talk about your expectation on those two things, pricing and the office environment, and whether you see that becoming better or worse in the next couple of months, in the next year or so?

Q

And then, Karen, I just wanted to ask for a clarification. Are we at the point – from the gross leverage standpoint, I think you guys are below 2 times now, where you guys will return 100% of free cash flow to shareholders as soon as next quarter. And I just wanted to ask if you could clarify, when you guys talked about the revenue guidance for the segments, was that consistent with prior years or typical years? I feel like you may have said both, so I just wanted to clarify that. Thank you.

Enrique Lores

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

Let me start on the question on Print demand. So at this point, what we are expecting or what we are building in the plan is similar market behavior to what we have seen in Q3. If many of our competitors announce price increases as a consequence of the trade-related cost, what we have seen in the market is that these price increases didn't materialize in the competitive space.

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So, we are expecting that this aggressive price competition is going to continue going forward. We think is connected to the fact that the market was smaller and, therefore, there was in the market more pressure on the price side. But as I said before, we think this is going to be temporary. We have not seen a change in the fundamental variable, which is the number of pages printed, which gives us confidence on the future. And in terms of 2026, it's early to give you a lot of detail. We will, in the coming quarters, in the coming months, as we do more work to estimate what will be the demand going for next year.

Karen L. Parkhill

Chief Financial Officer, HP, Inc.

Yeah. And, Michael, on your second question on capital allocation, our leverage did improve from Q2 where it was slightly over 2.2 times and improved in Q3 to just be slightly over 2 times, the 2.04 times in Q3. And that was

A

driven by improved EBITDA and the repayment of a debt maturity that we had in June. While it could remain slightly elevated in Q4, we do expect it to continue to improve in FY 2026. So, we do anticipate more repurchase activity soon. And I would say, should we continue to operate at higher leverage levels, we would use cash to reduce debt as bonds mature, and that would also enable us to repurchase stock as well.

Operator: Your next question comes from the line of Erik Woodring with Morgan Stanley. Please go ahead.

Maya Neuman

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good afternoon. This is Maya on for Erik. Enrique, maybe if we start with you, could you maybe elaborate a little bit on your AI PC comments? When we speak to CIOs or channel partners, we don't hear as much enthusiasm for AI PCs, but clearly, your comments prove otherwise. Can you just please unpack maybe the industries you see adopting AI PCs or regions that are particularly strong? And then what are the key use cases you're hearing that are driving this AI PC adoption? And then, I have a follow-up. Thank you.

Enrique Lores

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

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Sure. Yeah. And I think it's – really my comments are driven by what we see in actual. As I said in the prepared remarks, our mix of AI PCs today is more than 25% and this is the goal that we had for Q4, for the end of the year. So, we are one quarter ahead of our original target, which shows the demand that we see. I think the key thing behind the AI PCs is the fact that over the next quarters, more and more software applications are going to take advantage of the capabilities that the AI PCs have.

And we have started to see it now and we expect that it will continue. For example, we have now Adobe and Zoom that are taking advantage of the capabilities of running some of their application software in the PCs, which means it will be faster, and also it will reduce some of the cloud costs that they will be having. We have seen security companies like CrowdStrike taking advantage of the ability to use in the NPUs to scan the memory faster, which means for many other applications, this brings a significant advantage.

Also, Microsoft is doing a remarkable job continuing to improve the libraries that they offer to other companies, so they can do a lot of activities in the PCs that before they had to do in the cloud. And finally, of our own AI applications, during the last month, we launched AI Companion, OMEN AI. We launched a specific AI application in China. We continue to see month-over-month and quarter-over-quarter improvement in utilization.

So, we see clearly a gradual improvement. And as we said to many of our customers, if you are driving a refresh of your installed base, and that PC you expect to leave two, three, four years, and you expect your employees to use it for this time, if you don't want to be left out of the productivity improvements that over time are going to come, you should be considering buying an AI PC now, and this is what we see happening.

Maya Neuman

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. And then I know you mentioned that we're a little over 50% of the way through Windows 11 refresh. If we think about the SMB category, do you see them adopting more of that 12-month extended support that could come back and refresh in 2026? Or kind of how do the trends differ by underlying customer segments?

Enrique Lores

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

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Yeah. I think it's a great question. So, first of all, when we look at the total conversion, we are behind what we have been other years – sorry, in previous refreshes, which is why we think this process is going to be extended. When we look at the penetration in enterprise versus SMB, and this is very consistent to what we have seen before, the changes start in enterprise, and over time, it takes in SMB. This is what is happening this year, which is very consistent with previous refreshes. So, we see a bigger opportunity in SMB going forward which, again, is very consistent with previous refreshes that happened before.

Maya Neuman

Analyst, Morgan Stanley & Co. LLC

Great. Thank you.

Q

Operator: Your next question comes from the line of Alek Valero with Loop Capital. Please go ahead.

Alek Valero

Analyst, Loop Capital Markets LLC

Hey, guys. This is Alek on for Ananda. Thank you for taking my questions. Just very quickly on the Poly business, is there anything that you could update us on? Are you seeing any noticeable pickup or increased certainty in enterprise and corporate spending?

Q

Enrique Lores

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

Thank you. We mentioned in the prepared remarks that this was not a strong quarter for, what we call, Hybrid Systems. We have seen companies, especially in Europe, especially in the headset space, deprioritizing some of these projects versus PCs or versus AI. So, we have seen an impact in the short term. We continue to think that this is going to be – or this is a very important business for us going forward, and we continue to invest not only on the headset space, also in the video side. We announced a very innovative solution on 3D video collaboration that we did with Google, and we are going to continue invest in this category.

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On the other side, on the gaming side, in similar categories, we have seen very strong growth this quarter. This is driven by HyperX. So, on that side of the peripheral space, we had a strong quarter.

Alek Valero

Analyst, Loop Capital Markets LLC

Very helpful. And just a quick follow-up. As part of your refresh initiatives, is there any specific product lines that you are eyeing to refresh?

Q

Enrique Lores

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

Is the question on PCs or is it really across the full portfolio?

A

Alek Valero

Analyst, Loop Capital Markets LLC

Yeah, just across the full portfolio.

Q

Enrique Lores

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

A

I mean, the answer is, yes, across the board, we continue to invest significantly in R&D. Innovation is a key part of how we win and how do we compete. And next year, there will be refreshes across the PC portfolio, both in the Consumer side, in the Commercial side, in the workstation space, and many of the key areas of Printing. So lots of innovation that is coming. We mentioned a bit of that of what we did in Q3, but the next quarters are going to be very exciting from an innovation perspective.

Alek Valero

Analyst, Loop Capital Markets LLC



Super helpful. Thank you, guys.

Enrique Lores

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

So, I think it was the last question. So in closing, let me reiterate a few the key points that we have been making. First of all, we are executing with discipline in an environment that continues to be dynamic. Second, we expect to continue to see momentum in the refresh catalyst driving growth in the PC market. As I just mentioned, we are innovating to be a leader in the future of work, and we remain very energized by opportunities that we see ahead.

And before we wrap the call, I want to share that Orit will be moving to a new role as my new Chief of Staff, and I want to use this opportunity to thank her for her leadership as Global Head of IR. Her financial insight, sound judgment and guidance have been invaluable to HP, to me and to Karen, and we look forward to her continued strong contribution in her next role.

And I am also pleased to welcome Alok Juyal, our new Global Head of IR. With more than a decade at HP, including his recent role as CFO of our Personal Systems business, Alok brings deep expertise and a clear understanding of our operations, and he is very well positioned to support our investor relationships and contribute to HP's long-term goals. So, thank you to both. And thank you to all of you for attending today's call. Thank you.

Operator: Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation and you may now disconnect.