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**HP, Inc.** (HPQ)

Q1 2026 Earnings Call

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**Ketan Patel**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, everyone, and welcome to the First Quarter 2026 HP Inc. Earnings Conference Call. My name is Regina, and I will be your conference moderator for today's call. At this time, all participants will be in listen-only mode. We will be facilitating a question-and-answer session toward the end of the conference. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the call over to Alok Juyal, Global Treasurer and Head of Investor Relations. Please go ahead.

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### Alok Juyal

*Senior Vice President-Finance, Global Treasurer and Head of Investor Relations, HP, Inc.*

Good afternoon, everyone, and welcome to HP's first quarter 2026 earnings conference call. With me today are Bruce Broussard, HP's Interim Chief Executive Officer; and Karen Parkhill, HP's Chief Financial Officer. Before handing the call over to Bruce, let me remind you that this call is a webcast, and a replay will be available on our website shortly after the call for approximately 1 year. We posted the earnings release and accompanying slide presentation on our Investor Relations webpage at [investor.hp.com](http://investor.hp.com).

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

During this webcast, unless otherwise specifically noted, all comparisons are year-over-year comparisons with the corresponding year-ago period. 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 will now turn the call over to Bruce.

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### Bruce Dale Broussard

*Interim Chief Executive Officer & Director, HP, Inc.*

Thank you, Alok, and thank you, everyone, for joining us here today. I'm excited to be here with you for my first earnings call as Interim CEO. I've served as a Director on HP's Board since 2021, and I, along with my fellow Board members, strongly believe in the management team and strategic direction we are charting at HP. I'd like to also acknowledge Enrique Loes and his contribution to the success of the company during his 36-year tenure. We are sincerely grateful to him. The Board and I are committed to strong stewardship, including disciplined decision-making, operational consistency, stability for our employees, and delivering value for our customers and shareholders.

With that in mind, I want to provide a brief update on the CEO search. The process is well underway. The Board's priority is to identify the right leader to guide HP through its next phase of evolution. We will consider a broad range of candidates, with a preference for proven executives who have successfully operated large, multi-segment business in a complex and dynamic environment.

During my first few weeks since we've announced the CEO transition, I've immersed myself in the company. I've met with thousands of employees and spent considerable time talking with customers and suppliers. I've also had the opportunity to work closely with the leadership team. I want to thank the employees, suppliers, and customers for the warm welcome. Together, these discussions give me a clear view of the opportunity ahead and the deep confidence in what the organization can deliver.

We are at an exciting inflection point in technology, where customers need a trusted partner to enable edge computing, simplify experiences through integrated solutions, and embed AI into products that proactively anticipate users' needs. This is the foundation of our Future of Work strategy, which positions us to expand market share and ensures our pricing reflects the value we deliver, especially as we navigate near-term challenges.

We will stay disciplined in executing our fiscal 2026 plan, which you will hear more about today, taking great care of our customers, partners, and suppliers, and continuing to build a company where people are proud to work and grow. I'm working directly with the talented HP leadership team to ensure we are actively managing every lever available to us to drive value creation. With that, let's get into the quarter.

Overall, we executed well in Q1 and made solid progress against our strategy. Karen will cover the details shortly, but let me highlight a few points. We delivered another quarter of steady top line growth with revenue of \$14.4 billion, up 7% year-over-year, driven by performance in Personal Systems as we continue to see the positive impact on PC demand from the Windows 11 refresh cycle and the continuing momentum of AI PCs.

We achieved PC market share gains across our high-value commercial and consumer categories, contributing to our double-digit revenue growth in the segment. In Print, our results were in line with expectations, with continued momentum in consumer subscriptions, which grew revenue double-digit, and industrial print, which grew mid-single digit, with continuing shifts from analog to digital production.

We prioritized the placement of profitable units and grew Big Tank share in developed markets. Non-GAAP EPS of \$0.81 reflected 9% growth compared to the prior year and was at the top of our guidance range.

Turning to our strategic advancement highlights, HP is dedicated to creating a more fulfilling professional experience. In the first quarter, we made meaningful progress bringing AI to the workplace through innovation. HP's focus on AI at the edge reflects the increasingly critical role of this technology in the daily lives of our customers.

As the AI curve moves from a experiment to scaled deployment and measurable returns, we are enabling customers with compute power to run powerful large language models locally, complementing AI in the cloud with secure, high performance, and cost-effective AI at the edge. This is an important part of our Future of Work strategy. This quarter, AI PCs accounted for over 35% of our PC shipments, up from 30% in the prior quarter and 25% the quarter before.

We also launched the HP EliteBoard G1a. This is the first AI PC with intelligence built into the keyboard for hybrid work. And it's just one example of how we are bringing on-device architecture to life. In Print, our new AI-powered

scanning and redaction capabilities are now reaching customers, simplifying workflows and reducing friction for small business. Our focus on delivering more secure and AI-enabled print experiences is also being recognized, with industry analyst Quocirca recognizing our leadership in AI-driven print solutions.

The next step in our strategy is driving better together experiences. We believe there is enormous value in integrating devices, software, and services to work as a unified experience. In the first quarter, we launched HP Digital Passport, a personalized hub that centralizes information across the full HP ecosystem, resulting in better customer engagement and more efficient support. We also expanded our partnership with Microsoft, embedding Microsoft 365 Copilot directly into HP printers to improve how employees manage documents on the device.

This brings us to our third step: empowering CIOs with tools to gain actionable insights, manage risk, and run IT more strategically at scale. To that end, we introduced multiple enterprise-focused updates in Q1, expanding our Workforce Experience Platform, commonly called WXP, capabilities to further simplify device and printer management, combined with reducing downtime.

WXP is now the most comprehensive multi-vendor fleet management solution across PCs, print, and collaboration. By taking in data from 50 million endpoints and processing more than 1 terabyte of data daily, the platform enables predictive insights that allow IT teams to proactively identify issues, streamline operations, and improve workforce productivity.

In addition, this month, HP established an exploratory partnership with OpenAI to pilot OpenAI Frontier, their new enterprise platform for building and managing AI agents. This puts HP at the forefront of enterprise AI deployments with built-in governance, security, and observability as we move from pilots to scaled adoption across workflows.

In March, we will host our HP Imagine event for industry and media analysts. This showcases our latest innovative solutions to help people do their best work from anywhere. The new experiences we unveil at HP Imagine will demonstrate how we continue to lead the Future of Work by helping customers drive growth, professional fulfillment, and foster innovation in the era of AI.

Now, let me touch on the rising memory cost environment and how HP is addressing these market challenges which are impacting companies across the technology sector. Like others, we are seeing increased input costs, driven primarily by the rising prices of DRAM and NAND. We expect this volatility to remain throughout fiscal 2026 and likely into fiscal 2027.

While we believe the market will rationalize over time, we have already been implementing a number of mitigation measures. And since I moved into this role, I've been actively working with the team to drive these actions forward, to make adjustments where needed, and bring as much of the memory dynamic as we can under our control. To get a bit more granular on these mitigation measures, let me focus on progress of our key strategies.

First, on the supply side, we have leveraged the strength of our supplier relationships and secured long-term agreements covering our memory requirements for fiscal 2026. We've qualified new suppliers, built in strategic inventory positions for key platforms, and cut the time to qualify new material in half to accelerate our product configuration changes.

Second, on the cost side, we've expanded lower cost sourcing across our commodity basket, lowering logistics costs with agile end-to-end planning processes as part of the company-wide AI-enabled program. And we've

accelerated company-wide productivity efforts as part of this program to use the company-wide broader cost base to execute offsets.

Third, at the same time we are implementing strategies on supply and cost, we are also configuring our products and shaping demand to align the supply we have with our customer needs. And we are taking targeted pricing actions to offset the remaining cost impact in close partnership with both our channel and direct customers.

We have a strong track record of managing through commodity super cycles in uncertain times. We've demonstrated this during the pandemic and more recently through trade cost uncertainty. We built a more resilient supply chain and leveraged our strong brand and distribution strength to gain share and expand margin.

HP is also well-diversified, with a meaningful portion of our Personal Systems profit coming from services and peripherals. While the near-term environment will remain challenged and pressure PS margins, we are confident the actions we are taking will position us for the long-term success.

I also want to touch briefly on last week's US Supreme Court ruling on tariffs. We are evaluating the impact of the decisions, including the announcement of new tariffs in the last few days. Right now, we do not expect to be negatively impacted by the subsequent developments following the court decision. However, we will continue to engage the administration on these matters and others.

We are confident in the strength and agility of our supply chain, which provides the flexibility needed to navigate an uncertain trade-related cost environment. In this fluid operating environment, fiscal 2026 will be shaped by a range of factors, some of which remain uncertain. Our focus will be on prudent execution of mitigation plans to offset the impact of memory costs, accelerate company-wide cost action, and continue to execute against our Future of Work strategy.

We expect that the memory situation will normalize at some point. In the meantime, we are not backing away from our long-term commitments despite the headwinds, and my focus is to ensure we continue to move forward with urgency and discipline without missing a beat.

Before I close, I want to say what an honor it is to be part of the HP team. This is a special company, and I have great respect for our mission, culture, and people. To our shareholders, thank you for your continued belief and confidence in HP. And to our employees around the world, thank you for your dedication and commitment, and I'm proud to be on this journey with you.

And lastly, I want to provide an update on the Investor Day we had planned for April. In light of our ongoing CEO transition, we will be rescheduling this and look forward to sharing a date with you at the right time.

I'll now hand it off to Karen to walk through the first quarter results and outlook for the remainder of the year.

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## **Karen L. Parkhill**

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

Thank you, Bruce, and good afternoon, everyone. We are pleased with our first quarter results and the solid progress we made on delivering against our financial commitments. We drove better-than-expected top line growth, fueled by continued refresh momentum in Personal Systems and in our key growth areas. We also delivered non-GAAP EPS at the top of our guidance range. In a dynamic environment, our teams executed well, making progress on the playbook we laid out at the beginning of the quarter to mitigate higher input costs.

As you heard from Bruce, our initiatives are focused on securing supply, shaping demand and product configuration, implementing targeted cost reductions, and taking pricing actions. And all of these are well on track. While the memory situation remains fluid, we are executing well on all of the levers within our control and will continue to do so in the quarters ahead.

Now, let me walk you through our first quarter performance. We delivered revenue growth of 7% year-over-year, up 5% in constant currency, with growth across all regions. Strength in Personal Systems drove APJ revenue up 13% in constant currency, with EMEA and Americas growing 5% and 1%, respectively. Gross margin was 19.6%, reflecting an increased mix from Personal Systems as well as higher commodity and trade-related costs, offset in part by pricing and cost reduction actions.

We drove non-GAAP operating expenses down year-over-year through strong expense management and the continued benefit from our Future Ready cost savings program, completed at the end of fiscal year 2025. All in, our non-GAAP operating margin was 6.9%. Below the operating profit line, lower net financing expense and lower currency impact contributed to better-than-expected non-GAAP other income and expense in the quarter. And with a diluted share count of approximately 932 million shares, our non-GAAP diluted net earnings per share was \$0.81, up 9% year-over-year.

Now, let's turn to segment performance. We delivered-better-than expected top-line growth in Personal Systems, with revenue up 11% on 12% unit growth, with continued momentum in Win 11 refresh, AI PC adoption, and particularly strong consumer performance. We outperformed the market and, consistent with our strategy, gained share in premium categories. We also drove strong performance in key growth areas, including AI PCs, advanced compute solutions, and workforce solutions.

In consumer, we delivered 16% revenue growth on a 14% unit increase, above our expectations. We attribute part of this above-seasonal performance to demand pull-in, aimed at avoiding the impact of rising memory prices. At the same time, we drove increased ASPs, while delivering share gains in premium consumer devices.

In commercial, we drove 9% revenue growth, with units up 11%, fueled by Win 11 refresh, particularly in EMEA and AI PC strength. While we increased prices to help offset rising memory costs, we also had some large education deals in the quarter that impacted ASPs. Consistent with our Future of Work strategy, we gained share both year-over-year and sequentially in commercial premium categories.

Our operating margin in Personal Systems was 5%, within the range we guided at the beginning of the quarter, but slightly below expectations, given the stronger-than-expected performance in consumer and education.

In Print, our results were in line with expectations, with improvement in the rate of market decline. Revenue was down 2% on lower supplies volumes and market-driven hardware declines. Consumer revenue was down 8% year-over-year and commercial revenue down 3%, with higher ASPs helping to offset lower volumes.

Supplies performed as expected, down 2% year-over-year in constant currency. We continued to gain share in supplies, while increasing pricing to partially offset installed base and usage headwinds. We delivered solid performance in our key growth areas. Consumer subscriptions grew double digit year-over-year, helped by the continued ramp of our All-In Plan and reflecting our focus on increasing lifetime value per customer.

Strong demand in drones and robotics drove double-digit growth in 3D, and industrial print revenue grew for the 10th consecutive quarter, driven by the continued transition from analog to digital. And in line with our guidance, we delivered an operating margin of 18.3%, within the upper half of our long-term range. We are making solid

progress on our initiative to embed AI into our processes to accelerate product innovation, improve customer satisfaction, and boost productivity.

For example, we are working to integrate AI into our channel partner experience through a digital teammate that will answer questions, act on queries, provide integrated workflows, and proactively guide next steps. We are also scaling additional AI agents in supply chain to automate order entry, sales returns, and product data management.

We remain on track to generate approximately \$1 billion in gross annualized run rate savings by the end of our fiscal year 2028 and are actively working to accelerate and scale these initiatives. These important efforts enable our continued investment in key strategic and go-to-market initiatives, aligned with our Future of Work strategy.

Now, let me move to cash flow and capital allocation. We generated close to \$400 million in cash from operations and roughly \$200 million in free cash flow in the quarter, in line with our expectations and reflecting typical seasonality. And we improved our cash conversion cycle sequentially on favorable linearity, offset in part by higher days of inventory, reflecting rising commodity prices.

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

In Q1, we returned over \$600 million to shareholders through both dividends and share repurchases. While our leverage ratio remains slightly above target in Q1, we have maintained increased cash balances, reserving sufficient funds to pay down 2026 debt maturities, which enabled us to buy back shares in the quarter. And if needed, as we move through fiscal 2026, we can operate with higher cash balances to further reduce leverage with maturities in fiscal 2027.

As we look ahead, we have contemplated the dynamic memory environment highlighted earlier as well as the associated mitigation actions we are taking. These include expanding pricing actions and implementing additional company-wide cost reductions. And as Bruce mentioned, we are evaluating last week's US Supreme Court tariff ruling and the subsequent developments, but at this point, do not expect to be negatively impacted.

Looking at our outlook by segment. In Personal Systems, we are aligned with industry experts now projecting the PC unit TAM to decline double digits in calendar year 2026, reflecting the impact of industry-wide pricing actions on demand.

Against this backdrop, we continue to expect to drive revenue growth in our fiscal year through pricing actions, share gains in premium categories, and increased attach of higher margin offerings. We expect above-seasonal revenue performance to continue in our fiscal Q2, driven largely by the pricing actions we have taken, with revenue growth then moderating in the back half of the year.

Considering the continued fluidity of the commodities market, we are modeling a range of outcomes that factor in memory prices that are roughly doubling versus the prior quarter. Given this, we now expect the PS OP rate to be below our long-term range for the remainder of the year, reflecting this additional cost pressure, offset in part by mitigation actions.

In Print, we continue to expect the hardware market to decline low-single digit in calendar 2026, yet we expect to drive growth in Big Tank and industrial print to help offset. We are continuing to execute against our plans to gain

share in Big Tank and office and to drive further momentum in key growth areas, expanding our subscription business and driving growth in industrial.

While we continue to anticipate supplies revenue to be down low-single digit for the year in constant currency, we expect to drive both pricing and share gains. For Q2, we expect Print revenue to be in line with normal seasonality.

We now expect Print operating margins for both Q2 and the full year to be near the top end of our long-term range, with our focus on profitable unit placement and incremental cost discipline, helping to offset the impact we expect to have in PS margins. Beyond the segments, we expect both non-GAAP OI&E and Corporate Other to be roughly flat year-over-year for the remainder of the year.

Factoring this all in, we are maintaining our annual non-GAAP diluted earnings per share guidance range of \$2.90 to \$3.20. Given an increasingly challenging operating environment and the time it takes to fully implement our mitigating actions, at this point, we expect to be closer to the lower end of our guidance range. We recognize that the environment remains fluid, and we are pulling every lever available to offset these unprecedented headwinds.

For Q2, we expect non-GAAP diluted net earnings per share to be in the range of \$0.70 to \$0.76, and our second quarter GAAP diluted net earnings per share to be in the range of \$0.52 to \$0.58. We are also maintaining our annual free cash flow guidance range of \$2.8 billion to \$3 billion. However, consistent with our comment on EPS, given the environment, we currently expect to be closer to the low end of that range.

In closing, we are making solid progress against our financial commitments. We have a track record of strong execution and remain confident in our ability to navigate these near-term headwinds, while also focusing on driving long-term shareholder value.

Before we move to Q&A, we've been talking to you about the strength of our leadership team, and particularly given the memory situation, we wanted to make sure you got the chance to hear directly from the leader of our PS business on that topic. So, we've invited Ketan Patel to join us for this Q&A session.

Operator, please open the line for questions. Thank you.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. And we will now begin the question-and-answer session. Our first question will come from the line of Krish Sankar with TD Cowen. Please go ahead.

**Krish Sankar**

*Analyst, TD Cowen*

Q

Yeah. Hi. Thanks for taking my question. For Bruce or Karen, or even for Ketan, I understand you're operating well in a tough and fluid commodity environment. I wanted to find out if you can quantify what is the memory cost impact in Jan quarter, what is baked in terms of the memory cost increase in April and fiscal year? And along the same path, with your memory suppliers, are you able to secure LTAs for volume only, or is it volume and pricing? And then I had a quick follow-up.

**Karen L. Parkhill**

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

A

Yeah. Thanks, Krish, for that question. I'll start, and then I'll ask Ketan to add on. In terms of the memory cost in the quarter, it was included in our overall results. And given the fluidity of memory at this point, we're not going to try to quantify that net of mitigation actions. I would say that we have included a significant increase in memory costs in our guidance. We have seen memory costs increase roughly 100% sequentially, and we do forecast that to further increase as we move into the fiscal year. To put this in a little bit more concrete terms, we did share last quarter that memory and storage costs made up roughly 15% to 18% of our PC bill of materials. And we now currently estimate this to be roughly 35% for the year.

As we've said, we expect to see that largest impact in the second half. And because of that, we also said that we now expect our PS OP margins to be below our long-term range for the rest of the year. But that said, we are working hard to mitigate these headwinds. And we have a combination of product cost actions, company-wide cost actions, and price increases to help us recover that entire impact over time. Ketan, happy for you to add anything.

**Ketan Patel**

*President-Personal Systems, HP, Inc.*

A

You covered it well, Karen. I'll just add one thing, Krish, that given the volatility of the situation, we have a range of mitigation actions which we are working on, and we have managed this type of disruption before. And we are using our playbook to ensure how we navigate this volatility with two vectors in mind: continue to provide strong value to the customer and then protect our margins.

And this is delivered through – number one, through managing supply and portfolio. We have LTAs, which obviously protects our supply coverage. We also want to leverage power of our broad portfolio with silicon diversity so that we can offer different choices to customers in order to ensure how we do the demand/supply equation matching, and also introduce low memory configurations.

Cost actions, Karen has already covered. We keep working across commodity baskets to reduce costs as much as possible so that we don't pass to the customers. And also, we have a strong design for cost initiative, which includes platform offerings and other decontenting options in order to make sure the customer gets various choices.

And also, lastly, it's about pricing actions, driving favorable mix to our strategy. And then, most importantly, we'll be demand shaping to the available supply what we have with optimized platform and config options so that customer gets the best value to choose from, and also offer within their budgetary needs. And that's why this playbook is super important that we are working across various vectors to ensure we are delivering the right value equation for the customer.

**Krish Sankar**

*Analyst, TD Cowen*

Q

Very helpful, Karen and Ketan. And just a quick follow-up. You kind of mentioned PC unit TAM to decline double digits. Just wondering, is there a way to quantify it? Is it low-teens, high-teens, down 20%? And any specific segments which will decline more than the others? Thank you very much.

**Karen L. Parkhill**

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

A

Yes, thanks for that question, too. Yes, we do expect it to be down double digits, in line with many in the industry. And Ketan, feel free to add.

**Ketan Patel**

*President-Personal Systems, HP, Inc.*

A

No, it's pretty much in line. We also believe that the opportunity to grow revenue as we have given the outlook for the rest of the year will be there, fundamentally because we see momentum on Windows 11 and also mix shift on AI PCs, as Bruce covered, that we have a 35% mix now, and it's only increasing every single quarter. And pricing and other actions are only going to drive mix expansion on revenue TAM. So, pretty much we are in line with what industry forecast is.

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

**Erik W. Woodring**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hey, guys. Thank you very much for taking my questions. I have two. Karen, maybe starting with you. I don't want to overly focus on memory, but can you just help us understand how you at least approach guiding for the full year, understanding that memory costs beyond this quarter are largely uncertain, but likely to inflate further? Meaning, what kind of memory price appreciation are you embedding in your fiscal 2026 guide today? And then, how are you kind of balancing the potential for demand destruction versus protecting margins and what that all means for EPS? I'd just love that the approach that you're taking, given all these uncertainties. And then a quick follow-up, please. Thank you.

**Karen L. Parkhill**

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

A

Yeah. Thanks for the question, Erik. Obviously, things remain fluid. But I will start with the fact that we're pleased with our Q1 performance, particularly with the stronger-than-expected revenue in PS and EPS at the high end of our expected range. And our guide for Q2 calls for continued revenue growth above normal seasonality, with pricing increases and with the continued tailwinds from the Win 11 refresh and further AI PC penetration.

So, really, as far as the full year goes, I'd really summarize it with three key factors that helped shape our current outlook. One, we had stronger revenue, particularly in the first half that I just mentioned. Second, yes, we do see increased memory costs, and that's going to be partly offset by our higher mitigations that we've talked about. And third, on Print margins, we now expect to be at the high end of our long-term range.

So when you take all that together, right now, I would say that we're taking a prudent view, assuming that some of our revenue strength in the first half moderates and our fiscal year EPS is more first half weighted than typical. It obviously goes without saying, though, that we are operating in this very fluid environment. And we'll be executing our playbook. We're going to be pulling all levers to offset these headwinds. And of course, we'll continue to update you going forward.

But at this point, under our current assumptions for memory costs, which do include a 100% sequential increase this quarter and some further increases from there. We also take into account price increases that can take time to fully implement and the expected unit demand that we've talked about. So with all of that, we do anticipate being at the lower end of our guidance range.

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**Erik W. Woodring**

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. I appreciate all that detail, Karen. Thank you. And then maybe just as a follow-up, I'd love if you could maybe clarify a bit on capital returns. I know that you kind of talked about remaining committed to a 100% return of free cash flow to shareholders over time. But I guess, you're balancing two factors, butting up against your gross leverage target that would limit buyback versus your stock at a multi-year low. So, just how do you balance these factors and think about returns to shareholders in fiscal 2026, so just a little bit more clarification to detail? And that's for me. Thank you so much.

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**Karen L. Parkhill**

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

A

Yeah. Thanks, Erik. So, we do remain committed to returning 100% of our free cash flow to shareholders over time, and we've talked about that, as long as our gross leverage remains below 2 times and there aren't higher return opportunities. That said, you've seen us be operating with leverage slightly above 2 times right now and we have basically earmarked cash on our balance sheet to repay debt as it comes due in 2026, and we can continue to do that in 2027, if needed.

All of that combined has enabled us to also return to shareholders. And in Q1, we returned – we were pleased, honestly, to return about \$600 million to shareholders just in our first quarter, and over \$300 million of that was in share repurchase.

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**Operator:** Our next question will come from the line of Samik Chatterjee with JPMorgan. Please go ahead.

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**Samik Chatterjee**

*Analyst, JPMorgan Securities LLC*

Q

Hi. Thanks for taking my question. Maybe for the first one, I know you mentioned sort of this is a dynamic environment and you're seeing some level of pull-in in the PS segment. But just wondering, like, can you just dig into that a bit more? Is the pull-in largely on the consumer side that you're seeing right now? And how are you sort of delineating that versus whether you're seeing any pull-in on the enterprise side as well? Just trying to understand sort of the thought process there and what it means for the second half in terms of revenue outlook for those two segments. And I have a quick follow-up.

**Karen L. Parkhill**

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

A

Thanks, Samik. And I'm happy to take that, and Ketan, feel free to add. We did see a moderate amount of customer demand pull-in in the quarter, particularly in consumer. That said, we also delivered stronger-than-expected revenue growth, and that was really driven by several key factors, including the strength of the fundamentals on the Win 11 refresh and on AI PC adoption. AI PCs were 30% of our total shipments in Q1. That was up from – they were 35% of our total shipments in Q1, and that was up from 30% in the prior quarter, and honestly, 25% the quarter prior to that.

And in enterprise demand, we had good demand, particularly in Europe and in Asia, and it was related to the Win 11 refresh cycle. We believe now that about 60% has refreshed to-date. So, that means we still have more to go. And we did increase prices, along with a shift in product mix toward commercial and consumer premium devices, which contributed to higher average selling prices. So, Ketan, happy for you to add.

**Ketan Patel**

*President-Personal Systems, HP, Inc.*

A

Yes. So, Samik, I'll just add a couple of comments. To our regular operational metrics, we have not observed any major disconnect from customer demand pattern versus market growth, especially on the commercial side. And consumer, as Karen said, there was a bit of pull-in in the month of December, is what we observed. And we consistently measure sell-out versus our sell-in data to look at that. The other proof point is that our channel inventory remains at a very healthy level, which means the customer demand, powered by AI PCs and Windows 11, has been strong in the geographies called out.

**Samik Chatterjee**

*Analyst, JPMorgan Securities LLC*

Q

Got it. Great. And maybe just a quick follow-up, Karen, probably more for you. I know you've sort of talked about the memory impact being greater on the second half for PS margins, but with the mitigation actions you're taking, do you sort of get to a point where you have confidence about seeing more stable PS margins as you exit the year and potentially some recovery towards the longer term range? Like, how would that trajectory look like in this back half? And sort of any confidence that it looks like a more stable trajectory sort of exiting the year on your front? Thank you.

**Karen L. Parkhill**

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

A

Yeah. Thanks for that question. Clearly, the environment is fluid. And at this point, we do say that we expect our margins for the rest of the year to be below our long-term range. But that said, we are not changing our long-term guidance range for our margins. And we do expect to be back into those long-term range over time. We'll see how quickly we can do it. Obviously, we're going to do it as quickly as we can. But the environment just remains very fluid.

**Operator:** Our 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. First, a clarification. Can you just tell us, maybe Karen, like, what you experienced in actual memory pricing impact that you realized in the quarter? Because it sounds like you're saying you're going

to see a sequential 100% increase next quarter and it's still going to go up, and yet for the full year, it's going to be up 100%. So, I just want to understand like what you actually experienced in the quarter itself in terms of memory price inflation?

**Karen L. Parkhill**

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

A

Yeah. The current prices that are up 100% sequentially are more looking forward. We did have some memory cost increases in Q1. But it was roughly in line with what we had outlined at the beginning of the year.

**Wamsi Mohan**

*Analyst, BofA Securities, Inc.*

Q

Okay.

**Karen L. Parkhill**

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

A

The increases are more going forward.

**Wamsi Mohan**

*Analyst, BofA Securities, Inc.*

Q

Right. Okay. And for the full year, you're saying that that's your expectation is for 100% year-over-year increase, if I understood that right?

**Karen L. Parkhill**

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

A

No, we said we're seeing current prices up about 100% sequentially. And that's – so Q1 to Q2. And we do expect them to further increase in the latter part of the year. We'll see how much they increase. But we don't expect to have reached peak by the time we're in Q1 to Q2.

**Wamsi Mohan**

*Analyst, BofA Securities, Inc.*

Q

Okay. Thanks for that. And then, can you maybe just talk a little bit about the memory negotiations you're having with your suppliers? I want to go back to Krish's question on these LTAs. Is that all volume commitments and pricing negotiations still open? And has the frequency of those price negotiations changed at all for you? And is there any chance of being short supply at all as you go through the course of the year? Thank you so much.

**Karen L. Parkhill**

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

A

At this point, we have really good relationships with our long-term suppliers and we've been working quite well with them. And we've said that we believe we've got the supply that we need to meet our plans and execute on our strategy at this point. As we look at pricing with our suppliers, we work to lock it in on a rolling basis and really so that we can help both shape demand and think through our pricing strategy around it.

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

**David Vogt**

*Analyst, UBS Securities LLC*

Q

Great. Thanks, guys, for taking my question. I might have missed this, because I jumped on late. Karen or anyone, can you guys talk to the nature of your long-term agreements? And what I mean by that is, obviously, I would assume it covers volume and price, but more importantly, I think you mentioned qualifying new suppliers. Can you expand on what that potentially means? Is that local-sourced memory in China or in APAC? And how does that factor into sort of your kind of strategy going forward? Is that a permanent source of supply that you think is likely? And then I have a follow-up.

**Karen L. Parkhill**

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

A

Yeah, David, I'm happy to start and have Ketan chime in. Yes, we did talk about the fact that we are pleased that we have secured the supply that we believe we need to execute our plans for the rest of the year. We have long-term good relationships with suppliers and we've been adding new suppliers into the mix. So, on the price side, we do look at price with our suppliers on a rolling basis, and we lock that in as quickly as we can so that we can help demand shape and focus on our pricing strategy around it. Ketan, feel free to add.

**Ketan Patel**

*President-Personal Systems, HP, Inc.*

A

Yeah. And all these new suppliers, as we look at the various supplier ecosystem, we are also accelerating our engineering efforts to qualify these commodities across our different platforms. So depending on the regulatory and compliance needs of specific country, wherever we are able to ship specific commodity, those are getting qualified in different products across the board, so that we can maximize available supply in the market and create a system to be shipped out to our customers.

**David Vogt**

*Analyst, UBS Securities LLC*

Q

No, that's helpful. And just maybe quickly as a follow-up, can you maybe speak to – and I apologize if you covered this, but can you speak to your pricing strategy? Obviously, I think, the industry has been used to having relatively stable pricing in the market, whether it's through the channel or through distributors. Are you tightening up those sort of windows in terms to better match your underlying commodity prices that you're procuring? Like, how does that work in the marketplace and what are your channel partners thinking or feedback around your sort of pricing dynamics to better match your supply to where the market's headed? Thanks.

**Karen L. Parkhill**

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

A

Ketan, feel free to take that one.

**Ketan Patel**

*President-Personal Systems, HP, Inc.*

A

Yeah, I'll take that. Pricing is, of course, a big topic in today's environment. But remember, as we have several route-to-market options, which we deal with, including online business, we have the channel business, enterprise business, public sector, end user deals, and also a lot of contractual business. So, each one of them have different durations, which we work on in terms of how the pricing will fully reflect, depending on the type of the business with some of these RTMs, which I called out. So, times can change from immediately in some cases through these various route-to-market options, and it takes a few months in other cases. So, that's how the pricing

is getting worked out right now. As soon as we get the pricing information, we apply this across the board through this different RTM, as I called out.

More importantly, where we are working on pricing is we want to be also sensitive about demand elasticity and working with customers in order to find the optimal configuration, both of the right platform offering as well as some decontending required in order to hit specific budgetary needs of specific customers. And we are also driving this through the right level of intelligence using our Workforce Experience Platform management software, which actually gives user insights in terms of what ideal configuration is for a particular work use case, so that we can demand shape to that specific need and drive pricing accordingly so that we are able to – we are not fully, if I say this, that if there is a specific cost escalation of the memory, you pass on that cost increase, but overall system increase will be limited because of some of these actions which I called out.

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

**Amit Daryanani**

*Analyst, Evercore ISI*

Q

Yes. Thanks for taking my question. I have two as well. I guess, maybe Karen, to start with, on the free cash flow generation target of \$2.8 billion to \$3 billion, can you just walk us through how you sort of get that, especially in the back half of the year, because, historically, I think free cash flow tends to be back half heavy, but then your profits tend to be back half heavy as too. So, this time it looks like profits might be front half heavy. So, just walk us through like what are the puts and takes and what enables the free cash flow expansion this year, especially given the trajectory of net income.

**Karen L. Parkhill**

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

A

Yeah. Thanks for the question. You're right that our free cash flow is back half loaded. That said, we delivered a better-than-anticipated free cash flow just in the first quarter. And as we drive expectations for Q2, we should see decent free cash flow in Q2 as well. For the full year, keep in mind that we're driving greater growth from our PS business through the year and that has a negative cash conversion cycle. So, clearly helps us when we think about working capital. While we do have some increased inventory, even in this quarter, you saw the cash conversion cycle improve while we had increased inventory, and that was really offset by the increased PS growth.

**Amit Daryanani**

*Analyst, Evercore ISI*

Q

Got it.

**Karen L. Parkhill**

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

A

Hopefully, that helps.

**Amit Daryanani**

*Analyst, Evercore ISI*

Q

That is super helpful. And then, maybe I'll stay away from memory and ask you a question on the Print side. You folks talked about Print margins kind of going towards the higher end of your ranges, so assume kind of in the – high end of the – in the 19% range for the year. Can you just talk about like what are the levers that enable Print

margins to expand from here, especially if you continue to have some of the supplies headwind? So, just spend a little bit of time on Print margin and what enables that growth over there, that would be helpful.

**Karen L. Parkhill**

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

A

Yeah. Thanks for the question. So, I'd say you've seen us operate at the high end of our long-term range in Print quite a bit lately. And so, this is not new to us. It's something that we'll continue to do and drive. With our Print strategy, we're clearly focused on profitable growth, and that includes shifting our business model to profit upfront with Big Tank and also driving increased subscriptions. And you've seen us do that over the last several quarters. We're also focused on gaining share in high-value categories. And of course, we're always focused on reducing our cost structure to remain competitive. So, we'll be pulling all of those levers to drive stronger PS margins.

**Operator:** Our next question will come from the line of Ananda Baruah with Loop Capital. Please go ahead.

**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

Yeah, guys. Thanks for taking the question. Appreciate it. I guess, one, if I could, and then maybe a follow-up, but would just love to get any context that you guys can share on the CEO search. What types of folks you're looking for and what the process is looking like? Appreciate it. And I have a quick follow-up as well. Thanks.

**Bruce Dale Broussard**

*Interim Chief Executive Officer & Director, HP, Inc.*

A

Sure. Thanks for the question. A few things on the CEO search. First, we've already established a search committee, and we are in the market. And that's been going on for the last three weeks or so. I think, in general, the Board is looking for a CEO that can take HP to the next level of our strategy, maybe a little more specific areas that we're oriented to. First, an individual that's had a proven track record of delivering value for the shareholders and customer. Second is, as evident by this conversation, is being able to navigate through a complex and dynamic environment. And then lastly, to be focused on the ability to have a global and multi-segment business experience.

As we think about a CEO, we really believe that being able to deliver value, be able to deal with the complexity of the marketplace, and then at the same time, to have the expansion and scale that HP deserves.

**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

I appreciate that. And could that include folks outside of the PC and print industry?

**Bruce Dale Broussard**

*Interim Chief Executive Officer & Director, HP, Inc.*

A

Yes. I would say that the Board is having a very broad view of that as a result of both the multiple businesses that HP is in, and in addition to strategy, and then in addition, as I mentioned, just the scale of the organization.

**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

That's super helpful. Thank you. And just quick clarification, as the follow-up. You guys mentioned, this is a great – this is actually great context. 35% of the BOM for the year, for fiscal 2026, now anticipated to be memory up

from the 15% to 18%, typically. Is that – as I understand it, and actually, just a clarification, your [ph] TSC (00:54:06) GP dollars is one-third peripherals, two-thirds the PC cost. And so, I guess the question is, number one, is that, am I remembering that accurately? Number two, if so, is the 35% of the two-thirds, that's the PC BOM, or is it 35% of the entire GP dollar basket? And that's it. Thanks.

**Karen L. Parkhill**

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

A

Yeah. It's 35% of the PC BOM. So, hopefully, that clarifies. And yes, we do have a third of our PS margins that come from businesses not reliant on memory. Those include higher margin attached business or workforce solutions and hybrid systems. And I would say, particularly in the attached business, we have a lot of headroom for higher margin growth from our installed base, and we're keenly focused on driving these more as part of our Future of Work strategy.

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

**Katherine Murphy**

*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you for the question. You noted that you're working to make sure that the overall systems price increase for PCs are limited. But obviously, we'll see some ASP uplift from the function of mix shift in the portfolio to more AI PCs and premium devices. Thinking just about the like-for-like increase on systems, do you have a framework for how much of a price increase customers can digest before we start to see impact on demand? And then I have a quick follow-up as well. Thank you.

**Karen L. Parkhill**

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

A

Yeah, I'll start, Katherine, and then I'll ask Ketan to chime in. We are increasing prices currently. So, yes, our ASP uplift is through mix and higher margin things, but it's also through price increases that we have been driving. So, Ketan, I'll let you comment on those.

**Ketan Patel**

*President-Personal Systems, HP, Inc.*

A

Yeah. And the demand to price elasticity, constant thing which we observe by customer use case and customer type, and that's something which we'll keep adjusting to ensure that we are hitting specific demand equation. I think there are two tailwinds which we are most encouraged with. We have spoken about this, which is Windows 11 and AI PCs, but more importantly, they are giving us a lot of confidence that the demand will continue, because on Windows 11, it is now showing strong data points where you see productivity gains and seamless collaboration across different use cases in enterprises. That's very, very encouraging.

Second, the reliable security, which is very important right now to secure devices. To handle AI-driven cybersecurity threats is also getting tremendously valued by customers. And then, of course, the third is compliance. And now, on top of it, AI PCs have started showing, the local models on AI PCs started to deliver results with more and more ISVs developing applications which are using local AI more effectively than ever before. And then HP, we have tied up with more than 100 ISVs to drive this forward.

What I mean by this is looking at the overall equation, when it comes to pricing, is the total cost of ownership focus we are going after, in making sure that depending on the use case, how much cost savings will come to the

customer situation across these various application layers. And that's the key driver of how the pricing equation will work.

**Katherine Murphy**

*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you very much. And as a follow-up, can you talk about any correlation that you observe between demand in the PC market and the opportunity in peripherals or print? Should we expect any weakness in PC industry unit shipments to weigh on the attach of monitors, keyboards, headsets, et cetera?

**Karen L. Parkhill**

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

A

Ketan, feel free.

**Ketan Patel**

*President-Personal Systems, HP, Inc.*

A

The overall, our – historically, we have seen that the post-refresh cycles and 2025 was the year when the Windows refresh started. Generally, the attach or peripherals business follows very well, because a lot of budgetary needs in the previous years have been used by PC buying, and that also is a huge opportunity in terms of how we see demand equation coming along as peripherals need increase. And then on top of it, as HP, we have also a headroom of growth in terms of gaining share in these categories. That's what is going to drive growth in attach and peripherals for us.

**Operator:** Our next question will come from the line of Asiya Merchant with Citigroup. Please go ahead.

**Asiya Merchant**

*Analyst, Citigroup Global Markets Canada, Inc.*

Q

Oh, great. Thanks for taking the question. Just I heard a lot about share gains. Like, where does HP feel very confident in those share gains, perhaps certain segments, certain regions? And specifically, I was talking about PCs, but please feel free to elaborate on Print as well. And then, just as a follow-up, OpEx, I think, I was – it seems like some of the cost saving actions that you guys announced last quarter seems to be flowing through here in the first quarter results. How should we think about OpEx for the remainder of the year? Thank you.

**Karen L. Parkhill**

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

A

Yeah. I'm happy to take share gains and ask Ketan to comment particularly on PS. I'll take Print. I'll let you take PS, Ketan, and then I'll take the OpEx question. We have been gaining share in Print in Big Tanks and developed markets. We've also been gaining share in supplies. And we continue to be the number one leader in Print with 33.5% of global market share. We're also focused on regaining share in high-value office categories, and we've been driving product innovation and also continued cost reduction to remain competitive to help us regain some of that share. Ketan?

**Ketan Patel**

*President-Personal Systems, HP, Inc.*

A

From a Personal Systems standpoint in calendar quarter four, the value share, which we gained was across all key geographies and all three regions. So, that's very, very encouraging, and that gives us confidence to take it forward. Also, we are not gaining – want to gain share for share's sake, as we have called out before. We want to

drive to our strategy, and that's shown in our CQ4, calendar quarter four, performance, premium share, where we were up 1.6 points year-on-year, and AI PC share, which was up 1.8 points year-on-year. So, we are driving strong growth in the areas which are identified and we will continue to focus and prioritize these categories in this demand/supply equation environment to remain true to our strategy.

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**Karen L. Parkhill**

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

A

And on OpEx, we've said that we expect OpEx for FY 2026 to be roughly flat year-over-year in dollars. That means that we're very focused on driving expense reductions everywhere that we can to offset the important investments that we need to make. As you know, last quarter, we did announce a transformation program centered around AI enablement, where we said we expect to deliver \$1 billion in gross run rate savings by FY 2028 with \$300 million by the end of FY 2026. Right now, we're focused on accelerating that program where we can and intending to drive additional cost actions to help mitigate the increasing headwinds that we're facing.

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**Asiya Merchant**

*Analyst, Citigroup Global Markets Canada, Inc.*

Q

Thank you.

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**Operator:** And our final question will come from the line of Aaron Rakers with Wells Fargo. Please go ahead.

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**Aaron Rakers**

*Analyst, Wells Fargo Securities LLC*

Q

Yeah. Thanks for taking the questions. I guess the first question, and I can appreciate there's a lot of volatility going on in the market right now, but I believe last quarter you had alluded to like a \$0.30 headwind for memory component costs, and I think, again, at that point, it was 15% to 18% of the PC bill of material. I guess, what I'm asking is, the guidance at the low end of the \$2.90 to \$3.20 range, clearly these memory input costs have gone up dramatically. Any way to frame the current views on that \$0.30 headwind or how that's evolved or changed relative to the current updated guidance that you've given?

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**Karen L. Parkhill**

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

A

Yeah. Thanks for the question, Aaron. Obviously, memory costs are higher now. And at this point, we're not going to continue trying to quantify given the volatility, and honestly, giving the myriad of mitigation actions that we're working. We are focused on mitigating as much as possible. And obviously, we've included that current assessment into our outlook.

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**Aaron Rakers**

*Analyst, Wells Fargo Securities LLC*

Q

Okay. And then as a quick follow-up, and apologize for probably the naïve question, but when you talk about seasonality, right, and being above seasonality, I'm just curious, when you look at PCs and you look at the Print business, how would you characterize or define normal seasonality in the fiscal second quarter?

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**Karen L. Parkhill**

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

A

Yeah, I would say, just on PS revenue, which is what we're talking about being higher than seasonal, we intend to take share in premium categories and AI PCs and are expecting increasing contributions from our peripherals and

solutions business, which are less impacted by memory costs. And obviously, the Win 11 refresh continues to be a driver outside of the US. And we're taking additional prices to offset the rising impact of memory. So, with all of this combined, we do expect our PS revenue to be stronger than normal in the second quarter, and then we also said that we expect it to moderate – to still grow, but moderate into the back half.

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

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## **Bruce Dale Broussard**

*Interim Chief Executive Officer & Director, HP, Inc.*

Thank you, operator. Thank you all for joining us today. As we've talked about today, HP has an enormous opportunity ahead, managing through the headwinds that the industry is facing, leveraging our disciplined execution and mitigation actions, while capitalizing on HP's DNA of innovation. We plan to provide more color on this in the coming quarters. I'm confident that our Future of Work strategy puts us on the path to growth in 2026 and beyond. And I look forward to keeping you updated on our progress.

Have a great afternoon. Thank you.

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