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HP, Inc. (HPQ)

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CORPORATE PARTICIPANTS

Alok Juyal

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

Bruce Dale Broussard

Interim Chief Executive Officer & Director, HP, Inc.

Karen L. Parkhill

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

Ketan Patel

President-Personal Systems, HP, Inc.

OTHER PARTICIPANTS

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Amit Daryanani

Analyst, Evercore ISI

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Brian Luke

Analyst, UBS Securities LLC

Wamsi Mohan

Analyst, BofA Securities, Inc.

Michael Anthony Cadiz

Analyst, Citigroup Global Markets, Inc.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Katherine Murphy

Analyst, Goldman Sachs & Co. LLC

Steven Kinney Chin

Analyst, TD Cowen

Tim Long

Analyst, Barclays Capital, Inc.

Mark C. Newman

Analyst, Bernstein Institutional Services LLC

MANAGEMENT DISCUSSION SECTION

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

Alok Juyal

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

Good afternoon, everyone, and welcome to HP's second 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 one year. We posted the earnings release and accompanying slide presentation on our Investor Relations web page at investor.hp.com.

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

During this webcast, unless otherwise specifically noted, all comparisons are year-over-year comparisons with the corresponding year-ago period. 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. Unless otherwise specified, all financial measures discussed today are non-GAAP, and EPS refers to non-GAAP diluted net earnings per share. Please refer to the tables in today's earnings release and the accompanying slide presentation on our website for reconciliations of these non-GAAP measures to the most directly comparable GAAP measures.

With that, I will now turn the call over to Bruce.

Bruce Dale Broussard

Interim Chief Executive Officer & Director, HP, Inc.

Thank you, Alok; and thanks, everyone, for joining us today. I want to start by saying how much I appreciate the opportunity to lead HP during this important time for the company. Through the efforts of our team around the world, we continue to advance our Future of Work strategy and help our customers navigate one of the most significant technology shifts ever due to AI.

I want to recognize and thank the entire HP team for the focus, discipline and agility they demonstrate every day. As interim CEO, I have spent significant time with customers, partners and employees. What I've seen is an organization that's moving with speed, focus and urgency to strengthen our market position and accelerate innovation that benefits our customers. This is translating into strong results in a complex operating environment.

Our second quarter performance underscores both the resilience of the business today and the opportunities we see ahead. Today, I'll share the innovations we're bringing to market across our portfolio, the results we delivered this quarter, as well as how we're planning for the environment ahead. But first, let me address one topic I know is top of mind: the CEO search.

As a reminder, the board established a Search Committee and engaged an external search firm. We're looking for a leader with the following attributes: first, a proven track record of creating long-term value for customers and shareholders; second, the ability to operate effectively in a complex and rapidly changing environment, like many companies are navigating today; lastly, global and multi-segment business experience. We are engaged in a comprehensive process to select the best leader for HP. While we're not in a position to provide a timeline, the board is actively evaluating candidates who align with HP's needs.

Turning to innovation. Let me share how we are bringing our strategy to life across the company. As work evolves, organizations face critical decisions about their IT infrastructure, and employees are adapting to new ways of working, especially in the age of AI. AI innovation is accelerating, adoption growing rapidly across enterprises. Customers are becoming more thoughtful about where AI workloads run. AI is transforming computing from passive devices to context-aware intelligence systems.

Companies like HP that own the trusted edge, the workflow context and the orchestration layer between local and cloud intelligence will be positioned to thrive in this environment. Rising cloud costs associated with agentic AI, along with latency, privacy and security considerations are driving demand for AI workloads at the edge. As a result, customers are building AI at the edge using smaller open source and proprietary models with more capable hardware and secure software layers.

HP is enabling the Future of Work by providing the essential tools and technology necessary for this transformation. Our devices and software stack support this shift with strong architectural capabilities for edge inferencing and new AI workloads. We are becoming the trusted intelligent edge provider, connecting devices, workflows, context and physical environment.

We continue to believe the future of AI is hybrid with edge playing an increasingly important role over time. Building on this opportunity, we recently unveiled a wave of innovation at our HP Imagine event, our annual global technology showcase of new products and solutions. In Personal Systems, we introduced the next-generation AI PC and expanded local AI capabilities with an ecosystem of more than 150 software companies of all sizes.

Previously, we highlighted our collaboration with partners like Zoom and CrowdStrike. Today, I want to showcase other software partners. Goodnotes, for example, is leveraging the NPU for local audio transcription and summarization while AI Producer is transforming our AI PCs into professional production studios. These are just a few examples of how we are enhancing productivity, output and workflow experience for our customers.

To bring data center capabilities directly to the desktop in order to support the most demanding AI and compute workloads, we introduced new Z Workstations and AI Stations. These purpose-built devices enable customers to develop, run inference and scale AI workloads, providing greater control over token costs, latency and enterprise data security.

In Print, we launched a new Laser Jet series with AI-enabled document workflows, quantum-resistant security, and up to 50% faster document handling, making work easier and more secure. We're also extending innovation into areas like construction and design, connecting physical and digital workflows to help teams stay aligned from the office to the job site. Also this quarter, we introduced the HP Multi Jet Fusion 1200, bringing industrial 3D printing capabilities into a more compact, accessible system design to help customers move from prototyping to production closer to where work happens.

We're also creating Better Together experiences across our portfolio with the introduction of HP IQ. This is a groundbreaking intelligence layer that coordinates seamless integrated experiences across all our products. A key feature is HP NearSense, a new spatial intelligence that helps devices easily discover and connect to each other. The goal is to make tasks like file sharing, joining meetings and moving between environments feel more intuitive and effortless.

As work becomes more connected yet distributed, IT teams need simpler ways to manage, secure and optimize environments. That's why we've enhanced our Workforce Experience Platform, known as WXP, with AI-driven tools for proactive management of personal endpoints and shared spaces. WXP actively manages over 5.2 million devices across 180 countries. These innovations represent our commitment to creating more connected experiences across devices, software, services and security. They reflect our One HP approach in action, which we believe positions us well to create more value for our customers and partners. We're seeing strong customer interest in these new innovations, which underscores our approach and the growing customer demand for our solutions.

Let me turn to our quarterly results. In February, I said our focus would be on prudent execution, taking the right cost actions and continuing to advance our Future of Work strategy. I'm pleased to report we delivered against those commitments in Q2. Revenue grew 9% year-over-year, marking the eighth consecutive quarter of top line growth, led by strong Personal Systems performance, while Print results were in line with expectations. Importantly, the quarter reflected not just growth, but disciplined execution. We continued to grow in high-value categories and accelerated our mitigation strategy to manage commodity cost pressures, which allowed us to deliver EPS above our guidance.

Let me turn to segment performance. In Personal Systems, revenue grew 13% year-over-year with strong growth in both commercial and consumer. This includes continued momentum in AI PCs, which increased from more than 35% to 44% of our shipment mix in the quarter as well as continued strength in advanced compute solutions and workforce solutions. In Print, revenue was flat year-over-year in a competitive market, as expected. We remain focused on pricing discipline and placement of profitable units and gained share in big tank printers in line with our strategy. Industrial Graphics delivered its eleventh straight quarter of revenue growth with momentum in hardware, supplies and services.

Turning to the external environment. We continue to navigate a challenging supply and cost environment while remaining focused on disciplined execution. In Q2, as anticipated, memory and storage costs increased sequentially. We expect this trend to continue in the second half of 2026 with cost increasing in fiscal Q3 and Q4. Our strong execution of the mitigation strategies we outlined in February has strengthened our ability to navigate future headwinds.

Let me walk through the strong progress we have made in our four-pillar plan. First, through our strong supplier relationships and long-term agreements, we are confident we have the memory and storage that we need for this fiscal year.

Second, we fully operationalized a planning model that tightly aligns supply, demand and product configuration decisions. This gives us greater flexibility to respond in real time and better positions the right products in the right markets to meet customer demand.

Third, our strategic inventory helped us remain cost competitive and maintain supply continuity. We continue enrolling new suppliers, taking strategic inventory positions, strengthening our operational muscle through demand-steering activities and expanding our attached businesses.

Lastly, we remain disciplined on both pricing and cost. We executed a differentiated repricing strategy, prioritizing strategic customers, distributors and countries. We also executed across multiple cost levers, including sourcing optimization, platform cost reductions and company-wide productivity actions to help offset ongoing pressures while continuing to invest in the business.

Looking ahead, we expect the memory and storage environment to remain constrained. In addition, we also anticipate broader inflationary pressures beyond memory and storage, including oil prices and their downstream effects. To help mitigate these headwinds, we will continue to leverage the operational capabilities and discipline we strengthened in Q2. We remain focused on driving long-term growth by leveraging our strong portfolio, go-to-market reach, supplier relationships and innovation pipeline.

In closing, we're confident in our Future of Work strategy and the significant opportunity ahead as AI continues moving to the edge. We believe our continued focus on innovation and disciplined execution positions us well to drive sustainable growth and long-term shareholder value.

With that, I'll turn it over to Karen.

Karen L. Parkhill

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

Thank you, Bruce; and good afternoon, everyone. We are pleased with our second quarter results and the progress we've made against our financial commitments for the year. We delivered solid top line growth, driven by continued strength in Personal Systems and momentum in our key growth areas. And through disciplined execution and an emphasis on what we can control, we also delivered EPS above our guidance range.

Our results reflect the progress we have made on executing to the playbook we laid out at the beginning of the year to mitigate higher input costs. We took deliberate actions to lower our memory costs by accelerating product reconfiguration and qualifying lower-cost components. We optimized the use of lower cost inventory on hand while shaping demand to higher-margin units. And lastly, we took action to reprice for commodity increases. Together, these actions had a meaningful impact on our operating profit in the quarter, enabling us to deliver results above expectations.

Now, let me walk you through more details on our second quarter performance. We delivered 9% revenue growth year-over-year or 6% in constant currency. By geography, the continued Win 11 refresh cycle in Asia and Europe helped to drive strong performance as expected, with constant currency revenue in APJ up 18%, EMEA up 6% and Americas flat. Gross margin was 20.9%, up year-over-year, driven by favorable pricing and contributions from key growth areas, partly offset by higher commodity costs and increased mix from Personal Systems.

Operating expenses as a percent of revenue remained flat year-over-year with continued investment in innovation, product promotion and people, offset in part by disciplined cost management. All in, our operating

margin was 7.5%, up 20 basis points year-over-year. Below operating profit, lower financing costs contributed to better-than-expected other income and expense in the quarter. And with a diluted share count of approximately 925 million shares, our net earnings per share was \$0.86, up over 20% year-over-year.

Now let's turn to segment performance. We delivered 13% top line growth in Personal Systems, reflecting prioritization of higher-value unit placements, continued services expansion and disciplined pricing, partly offset by lower volumes. Consistent with our strategy, we gained share in the premium PC categories. We also drove strong performance in key growth areas with double-digit year-over-year revenue growth in AI PCs, advanced compute solutions and workforce solutions.

We also delivered double-digit revenue growth year-over-year in both consumer, up 10%, and commercial, up 14%, driven by repricing actions to cover commodity headwinds and favorable mix. As expected, commercial showed above seasonal sequential performance, which we attribute in part to some demand pull-in ahead of rising commodity prices. All in, we drove Personal Systems operating profit growth of 30% year-over-year, with operating margins at 5.2%, above expectations and due to the accelerated mitigation actions we took to offset higher input costs.

Print revenue was flat year-over-year, as expected, with hardware volume declines offset by favorable pricing and currency. Momentum in key growth areas continued, with double-digit revenue growth in consumer subscriptions, including an increase in subscribers to our All-In Plan. And industrial print delivered another solid quarter with year-over-year revenue growth across all regions. We also drove double-digit growth in 3D printing for the fifth straight quarter.

By customer segment, consumer revenue declined 10% year-over-year due to lower traditional printer volume in what continues to be a competitive pricing environment. Aligned with our strategy, we delivered double-digit unit growth in tank printers, gaining share both year-over-year and sequentially. Commercial revenue was flat year-over-year, with higher ASPs helping to offset lower volumes. We saw continued improvement in the Office market and drove share gains sequentially across all A4 Office categories. Supplies was flat year-over-year in constant currency, with pricing and share gains offsetting headwinds from installed base and usage. We delivered an operating margin of 18.3%, down year-over-year, as expected, with higher trade-related costs and promotional investment particularly in big tanks partly offset by pricing.

Across HP, we continue to advance our AI-enabled transformation, including modernizing our software development and delivery capabilities. We are consolidating platforms, simplifying applications and using AI to boost developer productivity, speed innovation and deliver better customer experiences faster. And we are also scaling similar initiatives across the company, including in our supply chain, go-to-market and customer support organization.

We remain on track to generate approximately \$1 billion in gross annualized run rate savings by the end of fiscal year 2028. As part of our efforts, we announced a voluntary early retirement plan in the quarter, and the expenses associated with that plan are included in our Q2 restructuring charges. Our cost-saving efforts remain an important lever to help offset macro headwinds while continuing to fuel investment in key strategic and go-to-market initiatives.

Now, let me move to cash flow and capital allocation. We generated over \$900 million in cash from operations and roughly \$800 million in free cash flow in the quarter, above our expectations on the strength of Personal Systems performance. And we returned nearly \$400 million to shareholders through dividends and share repurchase and finished the quarter within our target leverage ratio. 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.

Looking ahead to the second half of the year, we expect to continue to drive revenue growth. And as Bruce mentioned, we also expect rising input costs to put increasing pressure on our operating margins, particularly in Personal Systems. So, we are taking a prudent approach to our outlook. That said, we have a strong track record of navigating near-term headwinds and we'll remain focused on building on our Q2 momentum.

By segment, in Personal Systems, we remain aligned with industry experts projecting the PC unit TAM to decline at a rate in the high-teens for the second half of the calendar year. Against this market backdrop, we continue to expect revenue growth in our fiscal year driven by pricing actions, share gains in premium categories and increased attach of higher-margin offerings.

For Q3, we expect below seasonal revenue performance given first half demand pull forward ahead of commodity price increases. And as signaled, we expect input costs to continue to increase through the back half. Given that, along with a decreasing benefit from the lower cost inventory on hand, we continue to expect Personal Systems OP rate to be below our long-term range for the remainder of the year.

In Print, we are aligned with industry experts anticipating a low single-digit decline in the hardware market in the second half of the calendar year. We are executing our plans to gain additional share, both in tank printers through portfolio extensions and targeted promotion and in Office as we fully roll out our latest AI-enabled laser portfolio.

We also expect sustained momentum in key growth areas by expanding subscribers to our All-In Plan and driving growth in industrial. And while we continue to project supplies revenue will be down low single-digit for the year in constant currency, we expect to drive both pricing and share gains. For Q3, we expect Print revenue generally in line with normal seasonality and we expect operating margins near the lower end of our long-term range, reflecting typical seasonality, incremental hardware unit placements and near-term input cost pressures, which we are actively working to mitigate.

That said, for the full year, we expect operating margins solidly in the range. Beyond the segments, we continue to expect OI&E to be approximately \$500 million for the year and corporate other expense to be slightly under \$1 billion.

In summary, with two solid quarters behind us, we are strengthening our outlook for the fiscal year. As you recall, last quarter, we signaled that earnings per share could be closer to the lower end of our guidance range. However, with the meaningful progress we have made against our mitigation playbook, we are now more confident in our ability to deliver higher EPS this fiscal year. As such, we now expect diluted net earnings per share to be in the range of \$2.90 to \$3.10. For Q3, we expect diluted net earnings per share to be in the range of \$0.61 to \$0.71.

Lastly, given our expectations for improved earnings performance, we expect our annual free cash flow to be solidly in the range of \$2.8 billion to \$3 billion.

In closing, we are pleased with our first half performance and progress we are making against our strategic and financial priorities. While we expect the external environment to remain dynamic in the back half of the year, we are focused on disciplined execution, accelerating our mitigation actions and continued investment in innovation and growth to drive long-term value.

As we turn to Q&A, given the current dynamics in our PC business, we've invited Ketan Patel, who leads Personal Systems, to join us, similar to last quarter. So, 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. [Operator Instructions] And our first questioner today will be Samik Chatterjee with JPMorgan. Please go ahead.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Q

Hi. Thanks for taking my question. Maybe for the first one, pretty strong margin performance in the PS segment. I know you're talking about that moderating as we go into the back half with memory costs continuing to go up. Maybe if you can talk about the offsets in the back half. You've talked about cost decreases or moderation of costs that you worked on as well as price increases. As you look to offset some of the memory cost increase in the back half, do you have more room to go on the cost reduction or is the back half more dictated by price increases that you potentially need to take? And I have a follow-up as well. Thank you.

Karen L. Parkhill

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

A

Yeah. Thanks for the question, Samik. We talked about the fact that we continue to expect input costs to rise in the back half. And we also have the reducing benefit of lower cost inventory from our strategic inventory positions that we had this current quarter – this past quarter. So, we do expect our operating margins to be below our long-term range for the balance of the year. But that said, we are actively executing our mitigation actions. And if those actions prove more effective or the environment improves, there could be some upside. I would note, though, that based on what we're seeing today, we would expect Q4 to be a low point, followed by sequential improvement into next fiscal year. And we are, of course, continuing to drive cost reductions. That will continue to benefit us in the back half and into FY 2027.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Q

Got it. Got it. Great. And maybe on Print, you mentioned the increasing input cost on that front as well, including resins. Is the playbook there in terms of margin resilience pretty similar to what you've executed in PS? Or are you thinking about it differently in terms of how to pass some of those increase in cost to customers? Thank you.

Karen L. Parkhill

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

A

Yeah. Our playbook is very similar to what we executed in Q2. And we're going to continue to drive that in the back half of the year and beyond.

Ketan Patel

President-Personal Systems, HP, Inc.

A

Yeah. And just to add – just to remind on the Personal Systems, the mitigation strategy where – around leveraging our strong supply chain scale and we demonstrated that in Q2 our ability to have the right level of

silicon diversity and strong supplier relationships. The other one is about driving cost actions across other commodity baskets as well as the overall design for cost initiative. And lastly is about demand shaping to optimize platforms and configs.

Operator: Your next question is going to come from the line of Amit Daryanani with Evercore. Please go ahead.

Amit Daryanani

Analyst, Evercore ISI

Q

Good afternoon, everyone. Thanks for taking my question. I guess, maybe the first one to start with, could you just help us frame or help us think about the size or the extent of which the first half commercial strength that we saw in the Personal Systems side benefited from pull forward dynamics versus what you think is a more durable underlying demand, given the fact you do have a Windows refresh and AI PC transition. So, I'd love to just understand on the commercial PC side, how much of the strength you saw was pull forward versus underlying trends.

Karen L. Parkhill

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

A

Yeah. Thanks for the question, Amit. We were pleased with the double-digit growth we delivered in both consumer and commercial PS and that was supported by disciplined pricing along with a richer mix and continued services expansion. There was some pull forward in commercial PS, as we mentioned, and we estimate that that added roughly 2% to 3% of revenue. I hope that helps.

Amit Daryanani

Analyst, Evercore ISI

Q

Yeah. That's super helpful. And then just as a follow-up, right. If I think about the back half guide, the EPS run rate I think is around \$0.65 to \$0.70 a quarter. Is that the right baseline for us to think about as we think about fiscal 2027, such that we actually imply EPS in the \$2.70 to \$2.75 range perhaps for fiscal 2027? Or are there vectors or things that you can execute on to ensure that there's EPS growth in fiscal 2027 versus the 2026 guide? I know I'm getting a little bit ahead, but would appreciate any insights on that.

Karen L. Parkhill

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

A

Yeah. Thanks, Amit. We are still in our planning process. So, it's too early to give guidance for next fiscal year. But I would note that with this increasing cost of memory in Q3 and Q4, we do expect our Q4 PS margins to reach a trough or a low point in Q4 and we do expect sequential improvement in those margins as we move ahead from there.

Operator: Your next question comes 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 so much for taking my questions. Karen, can you just maybe – just building on Amit's question – first question there. Can you maybe just build a bit on how you're thinking about demand elasticity in the second half of the year and then into 2027, just kind of given the higher pricing environment and then kind of the evolution of the Windows 11 upgrades? And maybe my question really is, as you guys sit here today, how would you think about visibility into two, three, four quarters out as you just kind of alluded to some of those

statements with Amit? I would just love to kind of understand how you kind of take that view today, how much visibility you actually have and how you think that impacts demand elasticity? And then a quick follow-up, please. Thank you.

Karen L. Parkhill

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

A

Yeah. Thanks, Erik. Appreciate it. We did say that we are aligned with industry experts out there that we expect unit TAM to be down high-teens in the second half. And that's really given the fact that we see this rising price environment, along with, for us, the slight pull forward that we had in Q2. So, we do expect unit demand to be down, but that to be offset in revenue with exactly what we've been driving: increased prices, increased mix to premium, higher attach businesses, et cetera. So, Ketan, I'll let you add anything here.

Ketan Patel

President-Personal Systems, HP, Inc.

A

Yeah. On top of it, we believe there is an intrinsic strength and strength in the demand in both commercial and consumer businesses and driven by two factors. One, still Windows 11, 30% of the installed base is still to be refreshed. So, that's one tailwind, which we see as an opportunity in short run. But in both short run and long run, as a lot of customers are moving workloads to the edge with rising cost of excess AI, that's a great opportunity, we believe, which is structurally available to us for AI at the edge, which will help us drive better mix and share gains, particularly in premium categories. And that said, we will see commercial demand remain strong on account of these two factors.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Super. Thank you for that color. And then just a quick follow-up. At least in the quarter, I know you guys are in multiyear cost savings program. OpEx was up 9% year-over-year in the quarter. Just can you provide a little bit more detail what drove that? How sustainable is that just as we look into the second half? Thanks so much.

Karen L. Parkhill

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

A

Yeah. Thanks for the question. So, our OpEx was flat as a percent of revenue year-over-year, as we expected. We do continue to invest in innovation and product promotion, particularly in our big tank units and also in our people while we're still maintaining cost discipline. And just as we look ahead, we would continue to expect OpEx to be roughly flat as a percentage of revenue. We're obviously still driving cost savings that are important levers to enable us to continue to invest in AI and innovation and also help offset some of the macro headwinds. But we expect OpEx to be roughly flat as a percent of revenue ahead.

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

Brian Luke

Analyst, UBS Securities LLC

Q

Hey thanks for taking the question. This is Brian on for David. So, regarding my first one, it's on memory sources/allocation. Can you just speak to the ability to access new or incremental sources to offset the pricing pressures you're seeing? And then I have a quick follow-up. Thank you.

Ketan Patel

President-Personal Systems, HP, Inc.

A

Thanks for the question. I'll take this. We have secured the memory and storage we need for the fiscal year through strong supplier relationship and long-term agreements. And on top of it, we have fully operationalized our supply-informed planning model that aligns demand, supply and configuration details – decisions in real time. And our strategic inventory position helped us to remain cost competitive while we remain disciplined on pricing and cost, executing a differentiated repricing and multiple cost actions across sourcing, platforms and productivity. And the speed of recovery differs by customer segment, by geography, by channel type, but balancing this mix to maximize meeting the customer expectations and cost recovery will continue to remain our focus.

Brian Luke

Analyst, UBS Securities LLC

Q

Got it. That's helpful. So, my second one is going to be on Print. Are you seeing any demand spill across from PCs into Print hardware and supplies? Are you seeing like a correlation between higher PC pricing and customers maybe spending less on other hardware-related products? Thank you.

Karen L. Parkhill

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

A

Yeah. Thanks for the question. On Print, right now, we continue to see a competitive environment and mainly enterprises prioritizing PC right now ahead of Print. But over time, we do expect that to improve. And in fact, we're seeing less decline in Office over the last three quarters, which is a good sign. And we can continue to see Print usage trends remain pretty strong.

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. The supplies revenue flat constant currency, it's a lot higher than your long-term expectations. Would you say like there was some impact also from a channel inventory step-up or is this purely related to maybe the mix of like higher hardware in the quarter or something like that? Can you just help us think through what drove that sort of much better supplies trajectory? And as you think through the course of the year, how that might play out? And I do have a follow-up.

Karen L. Parkhill

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

A

Yeah. Thanks for the question, Wamsi. I would start with our channel inventories remain in line and healthy to what we would expect, but our supplies revenue was flat year-over-year in constant currency, a little bit better than our expectations this year to decline low single-digit in constant currency. And that was really driven by pricing that we've implemented to help offset the trade-related headwinds as well as share gains. And all of that is helping to offset the headwinds from a lower installed base.

That said, we aren't changing our expectations for supplies revenue to decline low single-digit in constant currency this fiscal year. And then we do expect them to continue to decline low to mid-single-digits over the long term. But of course, we're focused on managing this trend by continuing to drive market share, also deliver growth in subscriptions and industrial and 3D, which are our key growth areas, and our focus on maintaining strong margins.

Wamsi Mohan

Analyst, BofA Securities, Inc.

Q

Okay. Thanks, Karen. And on Print margins, you called out different factors that are impacting the third quarter to be at the low end of the Print margin range. Should we expect the usual bounce back in Q4 or will the commodity price increases, whether it be resin or other areas, will that create sort of a different dynamic going into Q4? And in your guidance, are you expecting any tariff refunds? And if so, could you quantify those, please? Thank you.

Karen L. Parkhill

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

A

Yeah. Thank you. So, as we look at the back half of the year with our Print margins, we did say that we expect our Q3 op margins to be near the lower end of our long-term range. And that's reflecting not just typical seasonality, but also a focus that we have on placing incremental hardware units. And we do also see some pressure from increased oil-related commodities and transportation costs. But that said, we do see improvement in Q4 in those margins. And as we said, we expect Print margins to be solidly in the range for the full fiscal year.

And on tariffs, we're monitoring the government refund process, which continues to evolve. But currently, the government is not processing refunds for complex multinational companies like us. So, of course, when we're able, we will apply for refunds. But at this stage, it doesn't apply to us.

Operator: Your next question comes from the line of Asiya Merchant with Citi. Please go ahead.

Michael Anthony Cadiz

Analyst, Citigroup Global Markets, Inc.

Q

Hey good afternoon. This is Mike Cadiz for Asiya Merchant at Citi. So, my one question is, are you able to give any color on the performance by geography and why it's perhaps more disparate? It seems that all the acceleration was mainly from APJ. And just wanted to know if there was any elasticity there and why or any other factors that we should consider? Thank you.

Karen L. Parkhill

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

A

Yeah. Thanks for the question, Mike. We did see a good growth in both EMEA and APJ this quarter. And some of that was driven by the expected tailwinds from Win 11. And I would say, at this point, we have roughly 30% of the installed base still on Windows 10. So, we still have some more to go. But the growth that we saw in EMEA and APJ reflected that. And I would say, the Win 11 refresh that we've driven now in EMEA and APJ is now on par with North America.

Michael Anthony Cadiz

Analyst, Citigroup Global Markets, Inc.

Q

Excellent. Thank you.

Karen L. Parkhill

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

A

Geographies?

Ketan Patel

President-Personal Systems, HP, Inc.

A

Yeah. I'll just add that – Karen covered it in terms of Europe and APJ growth mainly because of Windows 11. Americas went earlier in the 2025 – back half of 2025, so you see that difference between geographies. But across the three geographies, you see structural demand coming on AI PCs and premium PCs, largely because of the AI at the edge opportunity, which I called out before, and that remains strong even for Q3 and Q4.

Operator: Your next question is going to come from the line of Ananda Baruah with Loop Capital. Please go ahead.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

Yeah. Thanks, guys, for taking the questions. I really appreciate it. Hey, was wondering, Ketan, you mentioned memory available procured through fiscal 2026. What's the useful way to think about how you're feeling about fiscal 2027 since it begins not so long from now? And then I have a quick follow-up. Thanks.

Ketan Patel

President-Personal Systems, HP, Inc.

A

Yeah. The way you saw our approach in 2026 of securing memory and storage and even CPUs throughout the fiscal year through our strong supplier relationship and long-term agreements, the same process we will continue to make sure is ahead for 2027 and beyond. On top of it, we continue to qualify new suppliers as we see further opportunities as we already qualified a lot of suppliers this year and also accelerating our process of qualifying those components with the right level of quality checks into our entire portfolio. So, that effort we will continue to drive in terms of securing supply for next year.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

And it sounds like you feel pretty good at this point with being able to procure what you need?

Ketan Patel

President-Personal Systems, HP, Inc.

A

Yeah. It's always a moving piece. But yeah, we have been confident, as you see in our 2026 situation, and that same playbook we'll apply moving forward.

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

Katherine Murphy

Analyst, Goldman Sachs & Co. LLC

Q

Thank you for the question. I was wondering if you could help frame how big resin may be in the bill of materials for print and hardware and if there's any consideration for supplies across ink and toner? And then just as a quick follow-up, is there any consideration for higher resin prices across the PC and peripheral category as well? Thank you.

Karen L. Parkhill

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

A

Yeah. Thanks for the question, Katherine. We are seeing rising cost for resin based on the oil situation right now. But that said, it's not too significant for us, and it is built into our outlook. We're not going to quantify what it is as a percent of the BOM, but we believe it's manageable.

Operator: Your next question comes from the line of Krish Sankar with TD Cowen. Please go ahead.

Steven Kinney Chin

Analyst, TD Cowen

Q

Hi guys. Thanks for taking my question. This is Steven calling on behalf of Krish. I had two as well. First one is actually on component supply as it pertains to processors. Just kind of curious just with the strength in the data center server CPUs, any potential ripple effects on the CPU supply for your procurement in the second half of the year, especially across the different SKUs that you guys are focusing on?

Ketan Patel

President-Personal Systems, HP, Inc.

A

Thanks for the question. We have required supply we need on CPUs. We have known about small core specifically having constraints since the beginning of the year, and we have been working to secure the supply we need. And with our process of moving towards higher-end mix, that supply mitigation is already part of our plans in terms of execution in Q2 and beyond. We are also managing price increases as we typically do across our entire commodities basket on CPU pricing, too. And finally, our silicon diversity helps us to work across multiple CPU suppliers and is beneficial to us in being able to secure both supply and pricing.

Steven Kinney Chin

Analyst, TD Cowen

Q

Got it. Thank you so much for that. And as my quick follow-up, I was kind of curious if you could provide some more commentary or anecdotes related to agentic AI for the client and edge compute space. I know that we're still in early days of agentic AI in the enterprise, but some of the comments earlier, was that specifically focused on companies or customers that have large software developer bases? Or was it a common, I guess, anecdotes from customers that are kind of debating between purchasing hardware that can run, call it, open source agents versus more of a subscription model to whether it's Copilot or other frontier models? Thank you so much.

Ketan Patel

President-Personal Systems, HP, Inc.

A

Thank you. There is a real shift happening towards AI at the edge with workloads moving for reasons stated by Bruce earlier. Fundamentally, benefits like latency, privacy, sovereign AI and the cost associated. And with this shift, the PC is becoming strategically relevant and HP has the right capabilities and proof points to shape how AI shows up at the edge. And in order to make sure that we are capitalizing on this, we are innovating on AI execution platforms, starting from how systems are designed around and for AI workloads where you see AI PCs and workstations are capable for running AI models locally. And we demonstrated this through some amazing product innovations earlier at HP Imagine, including HP IQ and Wolf Security solution, which is unique in protecting at BIOS-level instruction.

So, yeah, this is a great opportunity. And our partnership with 150-plus software partners who are also working on different use cases like productivity, developer needs and creative needs for bringing in local workloads is also helping.

Karen L. Parkhill

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

A

And Krish (sic) [Steven], I would also add that our AI PC mix that we shipped this quarter increased pretty substantially from 35% last quarter to 44% this quarter, as Bruce noted. And we continue to expect AI PC to be a greater part of our shipments going forward, reaching 60% to 70% next fiscal year and then above 70% by FY 2028.

Bruce Dale Broussard

Interim Chief Executive Officer & Director, HP, Inc.

A

Maybe I'll just add a few things to both what Karen and Ketan talked about is we are seeing a use of agentic with our technology we're seeing in both on the governmental side and on the enterprise side. And the applications are both in using cloud, but more importantly, really utilizing the edge computing. What we're seeing over time and we're hearing it from our customers that they're really moving from a centralized cloud intelligence where models were formed to being able to create real-time intelligence closer to the employee, the consumer and the workflow.

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

Tim Long

Analyst, Barclays Capital, Inc.

Q

Thank you. Two for me, if I could. I wanted to ask a little bit on the move towards subscriptions in both Print and PC. Just curious if anything's changed in there. We've heard in other parts of the industry where inflation or component availability might push enterprises or consumers more towards those type of models. I'm wondering if that's something you're seeing or expecting to start to see. And then second, I just did want to dig in on the consumer side. I think you talked about – a little bit about price elasticity and units versus ASPs. I'm just curious if that dynamic would be different in your view in the consumer side of the PC and Print businesses as far as looking out into the second half of the year and next year. Thank you.

Karen L. Parkhill

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

A

Sure. I'll start, Tim; and I'll ask Ketan to add on. But on subscriptions, we are focused on driving more and more recurring revenue where we can across our businesses. We're seeing great traction, particularly in Print in our All-In Plan, which continues to ramp. And we expect to expand it outside of the US next year. Really that subscription provides a simple, frictionless experience for customers and an ability to attach additional services like paper that make these customers more profitable over the long term versus a regular traditional print customer. Ketan, I'll let you add.

Ketan Patel

President-Personal Systems, HP, Inc.

A

On top of it, on PC, especially on the consumer side, we are working on things like Flex PC, which has a simplified financing model for customers to choose from, and that makes their procurement much more simpler than buying upfront.

Karen L. Parkhill

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

A

And on price elasticity in consumer, we'll clearly see how this plays out, but we do anticipate obviously lower unit demand going forward given the price increases, and that includes in consumer.

Ketan Patel

President-Personal Systems, HP, Inc.

A

Yeah. And I think just to add on the price elasticity, even where the price increases are, we see demand going down on the low end of the units, while you will see strength in the mainstream and premium price bands as we see price increases happening because the overall relative percentage on the mainstream and premium is lower than what you see on the low end side of the pricing.

Operator: Your next question comes from the line of Mark Newman with Bernstein. Please go ahead.

Mark C. Newman

Analyst, Bernstein Institutional Services LLC

Q

Yeah. Hi. Thanks for taking my question. You mentioned earlier that supply was locked in, I think I heard correctly, for memory and HDD for the rest of the year. I think I heard that. Have you also locked in prices to – I'm just curious if you could talk more about how your long-term agreements work? And I have a follow-on. Thanks.

Karen L. Parkhill

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

A

Yes. We are confident in our supply position for the rest of the year and, as Ketan already noted, are working on our supply for next fiscal year, but feeling very confident and comfortable there. In terms of prices, we lock in prices a little bit ahead. We don't lock them in for the very long term because we want to make sure that as prices stabilize and go down, we have an ability to benefit from that. Anything you would add, Ketan?

Ketan Patel

President-Personal Systems, HP, Inc.

A

I think you covered. Thank you.

Operator: That concludes our question-and-answer session. I will now turn it back over to Bruce Broussard for closing comments.

Bruce Dale Broussard

Interim Chief Executive Officer & Director, HP, Inc.

Thank you all for joining us today. I'm proud of how HP executed this past quarter. In a complex market, we delivered with resilience and discipline while continuing to innovate and position the company for significant opportunity ahead as AI moves to the edge. And of course, thank you to our employees around the world for their hard work and commitment and to our investors for the continued confidence you place in HP. I look forward to keeping you updated on our progress. Have a good afternoon. Thank you.

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