

HP Inc.

# Takeaways from Management meetings at CES 2024

Reiterate Rating: BUY | PO: 33.00 USD | Price: 29.81 USD

## Mgmt. is confident in the trajectory of Personal Systems

We hosted an investor meeting at the Consumer Electronics Show in Las Vegas (CES 2024) with President of Personal Systems Alex Cho and Senior Director of Investor Relations Maureen Leavitt at HPQ. Mgmt. highlighted improving trajectory for the PS business with normalizing inventory and mix shift to higher value segments. Mr. Cho noted three key drivers for growth in PC market for C24/C25: (1) refresh of the PCs sold in 2020/2021 during covid, (2) upgrades related to expiration of support of Windows 10, (3) secular shift to hybrid work and (4) increased adoption of AI PCs. We reiterate our Buy on an improving multi-year PC outlook, higher NPV print projects, cost controls, and improving FCF coming off trough levels in F23. PO stays at \$33 on 9x C24E EPS.

## Customer segment-oriented approach to AI PCs

According to Mr. Cho, HPQ categorizes its customers into different segments such as gamer, knowledge worker, creator, data scientist, etc and intends to customize AI PCs by such categories. AI PCs could increase PC ASPs by 5-10%. Given the AI is multi-model, AI PCs will also have enhanced camera, microphone/speaker capabilities in addition to the APU (Accelerated Processing Unit). Capability of AI PCs will include ability to run AI models locally, improved security features, and multi-modal input. Given the power consumption there could be different silicon used for different purposes, trading off battery life for processing power. Mgmt. shared use cases for AI used by product managers that reflected improved productivity and lower costs through a design cycle.

## Commodity costs ramping but manageable

Although commodity pricing is increasing, HPQ expects to remain in the 5-7% operating margin range. The company has several levers to maintain margins including mix, SKU simplification, scale, and better attach. Peripherals and Services attach are still relatively low compared to overall PC share, and the company expects that to improve over time.

## FCF trajectory remains \$3.1-\$3.6bn

Although HPQ does not disclose its cash conversion cycle targets by segment, mgmt. is still confident in the trajectory of the business to achieve FCF of \$3.1-\$3.6bn in F24 as previously mentioned in October 2023.

Estimates (Oct) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.07	3.28	3.43	3.50	3.58
GAAP EPS	3.05	3.26	3.33	3.39	3.47
EPS Change (YoY)	7.4%	-19.4%	4.6%	2.0%	2.3%
Consensus EPS (Bloomberg)			3.45	3.66	3.88
DPS	1.00	1.05	1.10	1.10	1.10
Valuation (Oct)					
P/E	7.3x	9.1x	8.7x	8.5x	8.3x
GAAP P/E	9.8x	9.1x	9.0x	8.8x	8.6x
Dividend Yield	3.4%	3.5%	3.7%	3.7%	3.7%
EV / EBITDA*	6.3x	7.3x	7.2x	7.3x	7.3x
Free Cash Flow Yield*	12.5%	10.1%	11.7%	12.9%	12.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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### Stock Data

Price	29.81 USD
Price Objective	33.00 USD
Date Established	3-Oct-2023
Investment Opinion	B-1-7
52-Week Range	25.22 USD - 33.90 USD
Mkt Val (mn) / Shares Out	29,460 USD / 988.3 (mn)
Free Float	89.9%
Average Daily Value (mn)	281.91 USD
BofA Ticker / Exchange	HPQ / NYS
Bloomberg / Reuters	HPQ US / HPQ.N
ROE (2024E)	NA
Net Dbt to Eqty (Oct-2023A)	NA
ESGMeter™	High

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PS: Personal System

FCF: Free Cash Flow

AI: Artificial Intelligence

PC: Personal Computer

ASP: Average Selling Price

NPV: Net Present Value

# iQprofile<sup>SM</sup> HP Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	40.0%	30.9%	30.2%	27.4%	25.9%
Return on Equity	NM	NM	NM	1,103.8%	300.1%
Operating Margin	8.5%	8.5%	8.6%	8.2%	8.0%
Free Cash Flow	3,673	2,962	3,451	3,795	3,800

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.1x	1.2x	1.4x	1.4x
Asset Replacement Ratio	1.0x	0.7x	0.8x	0.8x	0.8x
Tax Rate	15.4%	14.6%	14.5%	14.9%	14.8%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	290.9%
Interest Cover	14.8x	6.8x	6.8x	6.7x	6.8x

## Income Statement Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	62,910	53,718	54,335	55,412	56,695
% Change	-0.9%	-14.6%	1.1%	2.0%	2.3%
Gross Profit	12,263	11,508	11,646	11,877	12,151
% Change	-8.4%	-6.2%	1.2%	2.0%	2.3%
EBITDA	6,258	5,423	5,529	5,416	5,408
% Change	-4.5%	-13.3%	2.0%	-2.0%	-0.1%
Net Interest & Other Income	(371)	(671)	(682)	(675)	(667)
<b>Net Income (Adjusted)</b>	<b>4,276</b>	<b>3,278</b>	<b>3,348</b>	<b>3,250</b>	<b>3,240</b>
<b>% Change</b>	<b>-7.4%</b>	<b>-23.3%</b>	<b>2.1%</b>	<b>-2.9%</b>	<b>-0.3%</b>

## Free Cash Flow Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	4,562	3,646	3,772	3,541	3,538
Depreciation & Amortization	780	850	862	872	884
Change in Working Capital	(1,111)	(590)	(557)	46	58
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	232	(335)	81	55	57
Capital Expenditure	(790)	(609)	(706)	(720)	(737)
<b>Free Cash Flow</b>	<b>3,673</b>	<b>2,962</b>	<b>3,451</b>	<b>3,795</b>	<b>3,800</b>
<b>% Change</b>	<b>-37.0%</b>	<b>-19.4%</b>	<b>16.5%</b>	<b>10.0%</b>	<b>0.1%</b>
Share / Issue Repurchase	(95)	(100)	0	0	0
Cost of Dividends Paid	(1,037)	(1,036)	(1,075)	(1,024)	(997)
Change in Debt	3,082	(1,455)	0	0	0

## Balance Sheet Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3,145	3,232	3,608	4,378	5,182
Trade Receivables	4,546	4,237	4,669	4,758	4,872
Other Current Assets	12,045	10,508	11,209	11,354	11,539
Property, Plant & Equipment	2,774	2,827	2,872	2,920	2,972
Other Non-Current Assets	15,984	16,200	16,200	16,200	16,200
<b>Total Assets</b>	<b>38,494</b>	<b>37,004</b>	<b>38,558</b>	<b>39,610</b>	<b>40,765</b>
Short-Term Debt	218	230	230	230	230
Other Current Liabilities	25,971	24,258	24,834	25,114	25,471
Long-Term Debt	10,796	9,254	9,254	9,254	9,254
Other Non-Current Liabilities	4,534	4,331	4,331	4,331	4,331
<b>Total Liabilities</b>	<b>41,519</b>	<b>38,073</b>	<b>38,649</b>	<b>38,929</b>	<b>39,286</b>
<b>Total Equity</b>	<b>(3,025)</b>	<b>(1,069)</b>	<b>(92)</b>	<b>681</b>	<b>1,479</b>
<b>Total Equity &amp; Liabilities</b>	<b>38,494</b>	<b>37,004</b>	<b>38,558</b>	<b>39,610</b>	<b>40,765</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

IT Hardware

## Company Description

HP Inc. (HPQ) includes the PC and Printing segments of the former Hewlett-Packard Company. The Personal Systems segment provides consumer and commercial desktops and notebooks, workstations, thin clients, tablets, point-of-sale systems, calculators and related accessories, software, and support. The Printing segment provides printer hardware (Inkjet, Laser, Multi-function, Graphics), supplies, media, software and managed print services.

## Investment Rationale

Our Buy rating is based on improving PC outlook and lower restructuring costs that drive higher free cash flow, growth in operating profit dollars from a combination of higher NPV projects and tight cost control, and resumption of capital returns.

## Stock Data

Average Daily Volume 9,456,905

## Quarterly Earnings Estimates

	2023	2024
Q1	0.73A	0.82E
Q2	0.79A	0.85E
Q3	0.86A	0.85E
Q4	0.90A	0.91E



## Price objective basis & risk

### HP Inc. (HPQ)

Our PO of \$33 is based on 9x our C24E EPS of \$3.50. This multiple is the median of long-term range 5-13x. In our opinion, this multiple is justified given it balances near-term pressures the company is facing vs. long term opportunities. The weaker macro is leading to softer enterprise demand, weak demand in China, and price competition in the Printer business from Japanese competitors creates headwinds. Positives drivers include an improving PC market backdrop, improved profitability from cost actions and and stable to higher free cash flow over the next several years.

Downside risks to our price objective are increased price pressure in PCs and Print, weaker than expected macro, additional channel inventory correction required in light of lower demand in the near-term, uncertainty surrounding the company's pricing models in print, higher than expected restructuring costs which can pressure free cash flow, and FX headwinds favoring Japanese Print competitors.

Upside risks to our price objective are faster than expected recovery in PC demand and print supplies, strong capital return, large cost actions to support earnings, an unexpected recovery in the global economy, more than expected improvement in cash conversion cycle, unexpected share gain versus competitors, and large transformative accretive M&A that drives earnings growth.

## Analyst Certification

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### US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Amphenol	APH	APH US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
<b>NEUTRAL</b>				
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
<b>UNDERPERFORM</b>				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan

## US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya
	Vizio	VZIO	VZIO US	Wamsi Mohan

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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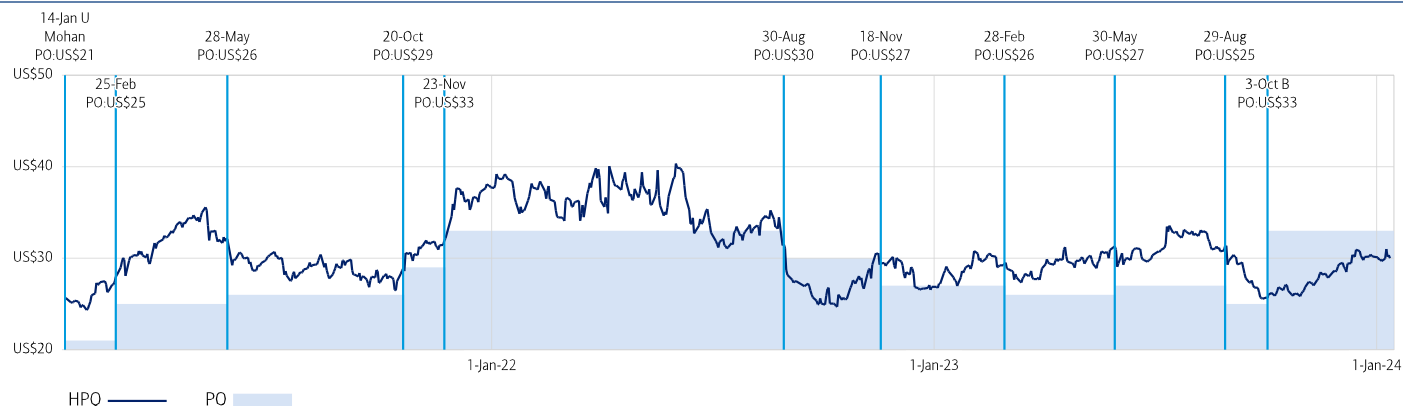
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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