

## HP Inc

### F4Q23 Review: Modest Recovery As Opposed to Strong Rebound Playing Out; Margin Trends and Valuation Keeps Things Interesting

HPQ results and outlook underscored our concerns that we had highlighted in our preview report (see [here](#)) relative to the low likelihood of upside to consensus estimates in the absence of any positive macro driver, particularly this early in the fiscal year. The aforementioned was evident as HPQ reported F4Q23 (Oct-end) results that were largely in line with expectations and reiterated its full-year outlook for earnings to track in the range of \$3.25-\$3.65 in FY24, including a lower than consensus F1Q24 (Jan-end) EPS guidance; although, in line with JPM's recently trimmed estimate - led by the myriad of mixed PC data points from ODMs, OEMs, and channel partners in C3Q earnings season. HPQ highlighted factors, such as continued caution amongst Commercial customers and weakness in China, is driving its expectations for weaker than typical seasonality in F1Q24, particularly relative to PS. However, even as the pace of recovery is less robust, HPQ's execution on the profitability front was top-notch which in some cases is ensuring that the modest pace of recovery is not driving incremental pricing and margin headwinds for the business segments, and is also leading to confidence in relation to guiding PS and Print margins to track towards the high-end of target ranges - led by various factors, including mix, cost actions, less promotional pricing in PS, limited incremental pricing pressures from Japanese Print peers, etc. Thus, as we digest the puts and takes of the F4Q23 earnings print, we continue to reiterate our expectations relative to a modest recovery rather than a strong rebound for FY24 barring evidence of a macro turnaround; however, are incrementally more positive relative to the achievability of the FY24 earnings guidance following the better than expected execution relative to profitability, particularly in Print despite the backdrop of a depreciating Yen. To that end, even as we tweak our model following the F4Q print, our full-year EPS estimates are largely unchanged and so is our Dec-24 price target of \$35.

- **F4Q23 (Oct-end) Results: Despite softer revenue, better profitability drives in line earnings.** Revenue tracked to \$13.8 bn, which was below JPMe and consensus expectations of \$13.9 bn. Personal Systems (PS) tracked to \$9.4 bn (vs. JPMe of \$9.6 bn and consensus of \$9.5 bn) and Print tracked to \$4.4 bn (vs. JPMe and consensus of \$4.4 bn). Meanwhile, total operating margins tracked to 9.0% (vs. JPMe of 9.0% and consensus of 8.9%), including PS margins of 6.7% (vs. JPMe of 6.6% and consensus of 6.5%) and Print margins of 18.9% (vs. JPMe of 18.6% and consensus of 18.5%), resulting in EPS of \$0.90 (vs. JPMe of \$0.91 and consensus of \$0.90).
- **FY24 (Oct-end) Guidance: EPS outlook in line with consensus expectations; albeit, with softer F1Q guide.** HPQ is guiding EPS to track to \$3.25-3.65 in FY24 (vs. JPMe of \$3.40 and consensus of \$3.47), which includes EPS expectations of \$0.76-0.86 in F1Q24 (vs. JPMe of \$0.81 and consensus of \$0.85). Meanwhile, FCF is expected to be in the \$3.1-3.6 bn range

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

#### See page 8 for analyst certification and important disclosures, including non-US analyst disclosures.

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## Overweight

HPQ, HPQ US  
Price (22 Nov 23):\$28.66  
Price Target (Dec-24):\$35.00

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### Quarterly Forecasts (FYE Oct)

Adj. EPS (\$)	2023A	2024E	2025E
Q1	0.73	0.83	0.87
Q2	0.79	0.82	0.93
Q3	0.86	0.84	0.95
Q4	0.90	0.91	1.06
FY	3.28	3.40	3.80

### Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top)			
		6M	1Y	3Y	5Y
Value	14	13	14	13	22
Growth	76	84	66	84	76
Momentum	67	74	56	77	29
Quality	6	13	8	19	4
Low Vol	13	20	24	34	10
ESGQ	78	32	8	19	10

## Price Performance



	YTD	1m	3m	12m
Abs	6.7%	10.2%	-7.6%	-2.4%
Rel	-12.0%	2.3%	-11.5%	-16.3%

## Company Data

Shares O/S (mn)	1,004
52-week range (\$)	33.90-25.22
Market cap (\$ mn)	28,774.64
Exchange rate	1.00
Free float(%)	89.9%
3M - Avg daily vol (mn)	8.23
3M - Avg daily val (\$ mn)	227.6
Volatility (90 Day)	23
Index	S&P 500
BBG BUY HOLD SELL	6 10 3

## Key Metrics (FYE Oct)

\$ in millions	FY23A	FY24E	FY25E
<b>Financial Estimates</b>			
Revenue	53,718	54,184	56,935
Adj. EBIT	4,572	4,594	4,722
Adj. EBITDA	5,072	5,109	5,281
Adj. net income	3,277	3,288	3,412
Adj. EPS	3.28	3.40	3.80
BBG EPS	3.29	3.47	3.71
Cashflow from operations	3,571	3,759	4,235
FCFF	2,978	3,217	3,495
<b>Margins and Growth</b>			
Revenue growth	(14.7%)	0.9%	5.1%
EBIT margin	8.5%	8.5%	8.3%
EBIT growth	(16.5%)	0.5%	2.8%
EBITDA margin	9.4%	9.4%	9.3%
EBITDA growth	(15.9%)	0.7%	3.4%
Net margin	6.1%	6.1%	6.0%
Adj. EPS growth	(19.8%)	3.8%	11.8%
<b>Ratios</b>			
Adj. tax rate	16.0%	16.0%	16.4%
Interest cover	-	-	-
Net debt/Equity	NM	NM	NM
Net debt/EBITDA	1.2	1.2	1.1
ROE	(164.4%)	(308.7%)	(343.2%)
<b>Valuation</b>			
FCFF yield	10.4%	11.6%	13.6%
Dividend yield	3.6%	3.9%	4.2%
EV/Revenue	0.7	0.6	0.6
EV/EBITDA	6.9	6.9	6.6
Adj. P/E	8.7	8.4	7.5

## Summary Investment Thesis and Valuation

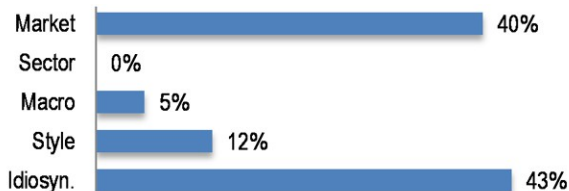
### Investment Thesis

Our Overweight rating on HPQ shares reflect our medium-term view of positioning relative to Dell. Led by our Global PC model, which embeds a 10%+ increase in volumes for the PC end-market between 1H23 and 2H23, and +7% in 2024, we believe HPQ's PS segment is favorably positioned, which is expected to be the primary driver of the recovery. In addition, with gross margins stabilizing following the digestion of inventory in the channel, we expect operating margin upside to stem from revenue leverage off a lean cost structure. We expect the combination of structural margin improvement in the Print segment on account of several initiatives undertaken by the company to offset some of the margin moderation in the coming quarters with easing supply, even though margin moderation is more muted than previously feared on better supply-demand balance.

### Valuation

Our December 2024 price target of \$35 is based on valuing our FY25 EPS estimate at a ~9x target P/E multiple. The valuation multiple is above the current trading multiple, although in line with the long-term historical average, on account of greater resilience within PC profitability and embeds a recovery in the PC forecast as the company cycles past near-term headwinds.

## Performance Drivers



Factors	6M Corr	1Y Corr
<b>Market:</b> MSCI US	0.51	0.64
<b>Sect:</b> Technology	0.31	0.08
<b>Ind:</b> Tech Hard Equip	-0.04	-0.08
<b>Macro:</b>		
Economic Surprise	0.26	0.21
Crude Oil	0.01	-0.13
Non-Energy Commodity	0.08	0.06
<b>Quant Styles:</b>		
Value	0.13	0.30
DivYld	-0.04	0.25
Quality	0.20	0.23

Source: J.P. Morgan Quantitative and Derivatives Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

in FY24 (vs. JPMe and consensus of \$3.2 bn).

## Investment Thesis, Valuation and Risks

### HP Inc (Overweight; Price Target: \$35.00)

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#### HPQ P/E-Based Price Target Analysis

\$ in Millions, except per share data

	NTM Qtrs 1-4	FY25E
JPM Net Income	3,288	3,412
JPM EPS	\$3.40	\$3.80
P/E Multiple	8x	
JPM P/E Multiple		9x
Implied Equity Value	28,775	31,053
Average Diluted Share Count	1,004	897
<b>Implied Share Price</b>	<b>\$28.7</b>	<b>\$35.0</b>
Current Value per Share	\$28.66	\$28.66
Upside vs. Current		22%

Source: Company reports and J.P. Morgan estimates.

#### Risks to Rating and Price Target

We might become less constructive on HP Inc.'s prospects if:

- PC and Peripherals demand fails to recover as expected;
- PC component costs escalate or supply-constraints emerge;
- New product/pricing strategies in the printer segment lose market share, revenues, and weigh on margins;

- Competition ramps in traditional markets, pressuring margins;
- Higher-margin supply business product mix shrinks more than expected; or
- Canon or other key suppliers terminate supply agreements with HPQ.

Figure 3: HP Inc Summary Table

\$ in Millions, Except Per Share Data

October Fiscal Year End	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	1Q25E	2Q25E	3Q25E	4Q25E	2025E
Personal Systems	44,084	9,185	8,169	8,932	9,398	35,684	9,196	8,637	9,091	9,667	36,590	9,783	9,407	9,877	10,472	39,539
Printers	18,902	4,612	4,736	4,263	4,418	18,029	4,389	4,448	4,255	4,498	17,590	4,359	4,384	4,205	4,444	17,392
<b>Total Revenue</b>	<b>62,983</b>	<b>13,798</b>	<b>12,907</b>	<b>13,196</b>	<b>13,817</b>	<b>53,718</b>	<b>13,586</b>	<b>13,086</b>	<b>13,347</b>	<b>14,166</b>	<b>54,184</b>	<b>14,142</b>	<b>13,793</b>	<b>14,083</b>	<b>14,917</b>	<b>56,935</b>
Y/Y % Chg.	(0.8)%	(19.0)%	(21.7)%	(10.0)%	(6.6)%	(14.7)%	(1.5)%	1.4%	1.1%	2.5%	0.9%	4.1%	5.4%	5.5%	5.3%	5.1%
Gross Margin	19.6%	20.2%	22.6%	21.4%	21.6%	21.4%	21.2%	22.1%	21.6%	20.9%	21.4%	20.7%	21.3%	21.1%	21.2%	21.1%
Operating Expense	6,857	1,734	1,808	1,656	1,738	6,936	1,719	1,769	1,767	1,766	7,020	1,805	1,761	1,798	1,904	7,268
as % of Sales	10.9%	12.6%	14.0%	12.5%	12.6%	12.9%	12.7%	13.5%	13.2%	12.5%	13.0%	12.8%	12.8%	12.8%	12.8%	12.8%
<b>Operating Income</b>	<b>5,478</b>	<b>1,053</b>	<b>1,106</b>	<b>1,166</b>	<b>1,247</b>	<b>4,572</b>	<b>1,157</b>	<b>1,124</b>	<b>1,123</b>	<b>1,191</b>	<b>4,594</b>	<b>1,117</b>	<b>1,171</b>	<b>1,173</b>	<b>1,261</b>	<b>4,722</b>
Operating Margin	8.7%	7.6%	8.6%	8.8%	9.0%	8.5%	8.5%	8.6%	8.4%	8.4%	8.5%	7.9%	8.5%	8.3%	8.5%	8.3%
<b>Net Income</b>	<b>4,289</b>	<b>731</b>	<b>785</b>	<b>859</b>	<b>902</b>	<b>3,277</b>	<b>829</b>	<b>801</b>	<b>800</b>	<b>857</b>	<b>3,288</b>	<b>800</b>	<b>845</b>	<b>847</b>	<b>920</b>	<b>3,412</b>
<b>Diluted EPS</b>	<b>\$4.08</b>	<b>\$0.73</b>	<b>\$0.79</b>	<b>\$0.86</b>	<b>\$0.90</b>	<b>\$3.28</b>	<b>\$0.83</b>	<b>\$0.82</b>	<b>\$0.84</b>	<b>\$0.91</b>	<b>\$3.40</b>	<b>\$0.87</b>	<b>\$0.93</b>	<b>\$0.95</b>	<b>\$1.06</b>	<b>\$3.80</b>
Diluted Shares (avg.)	1,050	996	998	1,002	1,004	1,000	994	975	957	940	967	922	905	888	872	897
Cash	3,145	1,769	1,940	1,718	3,232	3,232	2,225	2,858	3,011	3,369	3,369	2,613	3,341	3,484	3,785	3,785
Debt	11,014	10,759	10,600	9,679	9,484	9,484	9,484	9,484	9,484	9,484	9,484	9,484	9,484	9,484	9,484	9,484
Net Debt	7,869	8,990	8,660	7,961	6,252	6,252	7,259	6,626	6,473	6,115	6,115	6,871	6,143	6,000	5,699	5,699
Net Leverage (ttm)	1.3x	1.6x	1.7x	1.6x	1.2x	1.2x	1.4x	1.3x	1.3x	1.2x	1.2x	1.4x	1.2x	1.2x	1.1x	1.1x
Operating Cash Flow	4,463	(16)	636	976	1,975	3,571	(94)	1,537	1,053	1,262	3,759	206	1,679	1,093	1,257	4,235
Capital Expenditures	(790)	(192)	(130)	(137)	(134)	(593)	(136)	(131)	(133)	(142)	(542)	(184)	(179)	(183)	(194)	(740)
Free Cash Flow	3,673	(208)	506	839	1,841	2,978	(230)	1,406	920	1,121	3,217	22	1,499	910	1,064	3,495
Dividends	(1,037)	(259)	(259)	(259)	(259)	(1,036)	(278)	(273)	(268)	(263)	(1,081)	(277)	(272)	(267)	(262)	(1,078)
Share repurchases	(4,297)	(100)	0	0	0	(100)	(500)	(500)	(500)	(500)	(2,000)	(500)	(500)	(500)	(500)	(2,000)

Source: Company reports and J.P. Morgan estimates.

## HP Inc: Summary of Financials

Income Statement - Annual						Income Statement - Quarterly				
	FY22A	FY23A	FY24E	FY25E	FY26E		1Q24E	2Q24E	3Q24E	4Q24E
Revenue	62,983	53,718	54,184	56,935	-	Revenue	13,586	13,086	13,347	14,166
COGS	(50,648)	(42,210)	(42,569)	(44,945)	-	COGS	(10,710)	(10,193)	(10,457)	(11,209)
Gross profit	12,335	11,508	11,615	11,990	-	Gross profit	2,876	2,893	2,890	2,956
SG&A	(5,264)	(5,358)	(5,431)	(5,551)	-	SG&A	(1,331)	(1,370)	(1,366)	(1,363)
Adj. EBITDA	6,030	5,072	5,109	5,281	-	Adj. EBITDA	1,287	1,245	1,248	1,329
D&A	(552)	(500)	(515)	(559)	-	D&A	(129)	(121)	(126)	(139)
Adj. EBIT	5,478	4,572	4,594	4,722	-	Adj. EBIT	1,157	1,124	1,123	1,191
Net Interest	-	-	-	-	-	Net Interest	-	-	-	-
Adj. PBT	5,141	3,901	3,914	4,082	-	Adj. PBT	987	954	953	1,021
Tax	(852)	(624)	(626)	(669)	-	Tax	(158)	(153)	(152)	(163)
Minority Interest	-	-	-	-	-	Minority Interest	-	-	-	-
Adj. Net Income	4,289	3,277	3,288	3,412	-	Adj. Net Income	829	801	800	857
Reported EPS	4.08	3.28	3.40	3.80	-	Reported EPS	0.83	0.82	0.84	0.91
Adj. EPS	4.08	3.28	3.40	3.80	-	Adj. EPS	0.83	0.82	0.84	0.91
DPS	1.00	1.05	1.12	1.20	-	DPS	0.28	0.28	0.28	0.28
Payout ratio	24.5%	31.9%	32.9%	31.6%	-	Payout ratio	33.5%	34.0%	33.4%	30.6%
Shares outstanding	1,050	1,000	967	897	-	Shares outstanding	994	975	957	940

Balance Sheet & CashFlow Statement						Ratio Analysis				
	FY22A	FY23A	FY24E	FY25E	FY26E		FY22A	FY23A	FY24E	FY25E
Cash and cash equivalents	3,145	3,232	3,369	3,785	-	Gross margin	19.6%	21.4%	21.4%	21.1%
Accounts receivable	4,546	4,237	4,722	4,972	-	EBITDA margin	9.6%	9.4%	9.4%	9.3%
Inventories	7,595	6,862	6,850	7,182	-	EBIT margin	8.7%	8.5%	8.5%	8.3%
Other current assets	4,515	3,646	3,646	3,646	-	Net profit margin	6.8%	6.1%	6.1%	6.0%
Current assets	19,801	17,977	18,587	19,585	-	ROE	(187.8%)	(164.4%)	(308.7%)	(343.2%)
PP&E	2,774	2,827	2,502	2,331	-	ROA	11.1%	8.7%	8.9%	9.1%
LT investments	-	-	-	-	-	ROCE	65.6%	46.5%	45.8%	46.5%
Other non current assets	16,012	16,200	16,200	16,200	-	SG&A/Sales	8.4%	10.0%	10.0%	9.8%
Total assets	38,587	37,004	37,289	38,116	-	Net debt/equity	NM	NM	NM	NM
Short term borrowings	218	230	230	230	-	Net debt/EBITDA	1.3	1.2	1.2	1.1
Payables	15,284	14,046	14,323	15,016	-	P/E (x)	7.0	8.7	8.4	7.5
Other short term liabilities	10,651	10,212	10,212	10,212	-	P/BV (x)	-	-	-	-
Current liabilities	26,153	24,488	24,765	25,458	-	EV/EBITDA (x)	5.8	6.9	6.9	6.6
Long-term debt	10,796	9,254	9,254	9,254	-	Dividend Yield	3.5%	3.6%	3.9%	4.2%
Other long term liabilities	4,556	4,331	4,331	4,331	-	Sales/Assets (x)	1.6	1.4	1.5	1.5
Total liabilities	41,505	38,073	38,350	39,043	-	Interest cover (x)	-	-	-	-
Shareholders' equity	(2,918)	(1,069)	(1,061)	(927)	-	Operating leverage	635.4%	112.4%	56.6%	54.6%
Minority interests	-	-	-	-	-	Revenue y/y Growth	(0.8%)	(14.7%)	0.9%	5.1%
Total liabilities & equity	38,587	37,004	37,289	38,116	-	EBITDA y/y Growth	(5.8%)	(15.9%)	0.7%	3.4%
Net debt/(cash)	7,869	6,252	6,115	5,699	-	Tax rate	16.6%	16.0%	16.0%	16.4%
Cash flow from operating activities	4,463	3,571	3,759	4,235	-	Adj. Net Income y/y Growth	(7.2%)	(23.6%)	0.3%	3.8%
o/w Depreciation & amortization	780	850	867	911	-	EPS y/y Growth	7.9%	(19.8%)	3.8%	11.8%
o/w Changes in working capital	(1,145)	(612)	(196)	111	-	DPS y/y Growth	29.0%	4.5%	7.0%	7.5%
Cash flow from investing activities	(3,549)	(590)	(542)	(740)	-					
o/w Capital expenditure	(790)	(593)	(542)	(740)	-					
as % of sales	1.3%	1.1%	1.0%	1.3%	-					
Cash flow from financing activities	(2,068)	(2,891)	(3,081)	(3,078)	-					
o/w Dividends paid	(1,037)	(1,036)	(1,081)	(1,078)	-					
o/w Net debt issued/(repaid)	3,473	(1,399)	0	0	-					
o/w Share Repurchases	(4,297)	(100)	(2,000)	(2,000)	-					
Net change in cash	(1,154)	90	137	417	-					
Adj. Free cash flow to firm	3,673	2,978	3,217	3,495	-					

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Oct. o/w - out of which



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HP Inc (HPQ, HPQ US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage May 01, 1999. All share prices are as of market close on the previous business day.

Date	Rating	Price (\$)	Price Target (\$)
25-Nov-20	N	21.75	26
24-Feb-21	N	27.38	28
26-Feb-21	OW	28.19	35
19-Mar-21	OW	30.31	36
28-May-21	OW	32.10	38
27-Aug-21	OW	29.10	35
29-Sep-21	N	28.58	30
20-Oct-21	N	28.86	32
30-Nov-21	N	35.93	38
20-Jan-22	N	36.60	40
30-Mar-22	N	39.72	41
25-May-22	N	34.77	39
14-Jul-22	N	31.06	36
18-Aug-22	N	34.31	33
31-Aug-22	N	31.10	31
11-Oct-22	N	24.99	28
17-Nov-22	N	29.29	27
01-Mar-23	N	29.52	30
17-Apr-23	OW	29.82	35
19-Jul-23	OW	32.78	40
29-Aug-23	OW	31.33	39
20-Nov-23	OW	28.31	35

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
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IB clients**	47%	45%	33%
JPMS Equity Research Coverage*	46%	41%	13%
IB clients**	65%	64%	51%

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