

HP Inc. (HPQ)

\$22.24 (As of 02/18/20)

Price Target (6-12 Months): **\$23.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/21/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

HP is benefiting from growing demand in the Commercial PC market. Increase in sales for commercial customers is a tailwind. Broad-based growth across all products and geographies is helping the company outperform the PC market. Solid revenue growth in retail solutions business and gaming as well as services orders is a tailwind. Further, stringent cost control is driving margin expansion. The company's improving market share across the PC and Printer businesses makes us optimistic. Estimates have been stable lately ahead of HP's Q1 earnings release. The company has positive record of earnings surprises in recent quarters. However, soft consumer market and weakness in the Printing business are negatives. Further, macroeconomic weakness, particularly in Europe, the Middle East and Africa (EMEA), is denting Supplies revenues.

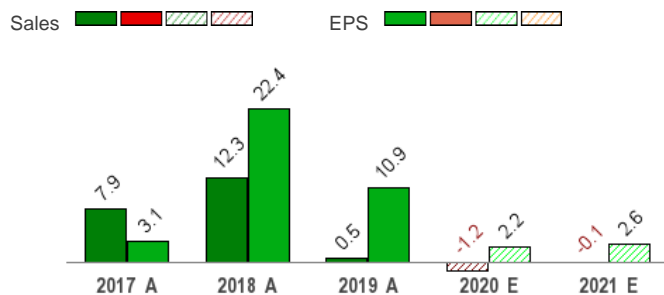
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$24.09 - \$15.93
20 Day Average Volume (sh)	9,028,027
Market Cap	\$32.3 B
YTD Price Change	8.2%
Beta	1.41
Dividend / Div Yld	\$0.70 / 3.2%
Industry	<u>Computer - Mini computers</u>
Zacks Industry Rank	Top 18% (45 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.5%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/24/2020
Earnings ESP	0.0%
P/E TTM	10.0
P/E F1	9.7
PEG F1	3.2
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	15,061 E	14,425 E	14,570 E	14,980 E	58,020 E
2020	14,613 E	13,898 E	14,402 E	15,074 E	58,050 E
2019	14,710 A	14,036 A	14,603 A	15,407 A	58,756 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.58 E	\$0.59 E	\$0.60 E	\$0.61 E	\$2.35 E
2020	\$0.54 E	\$0.54 E	\$0.58 E	\$0.61 E	\$2.29 E
2019	\$0.52 A	\$0.53 A	\$0.58 A	\$0.60 A	\$2.24 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/18/2020. The reports text is as of 02/19/2020.

Overview

HP Inc. is the surviving entity following the November 2015 split of Hewlett-Packard Company into publicly traded entities - Hewlett Packard Enterprise Company and HP Inc.

The company is a leading global provider of personal computing and other access devices, imaging and printing products, and related technologies, solutions and services to individual consumers, SMBs and large enterprises, including customers in the government, health and education sectors.

Headquartered in Palo Alto, CA, HP Inc. was founded in 1939. In Europe, Middle East, Africa (EMEA), the company is headquartered in Geneva, Switzerland. In Asia Pacific, the company's headquarter is in Singapore.

HP reported net revenue of \$58.5 billion in fiscal 2018, up 12% from the prior-year period. HP has three reportable segments: Personal Systems, Printing and Corporate Investments.

The Personal Systems segment (64% of FY18 Revenues) offers Commercial and Consumer desktop and notebook personal computers (PCs), Workstations, thin clients, Commercial mobility devices, retail point-of-sale (POS) systems, displays and other related accessories, software, support and services.

The Printing segment (36%) provides Consumer and Commercial printer hardware, Supplies, solutions and services, as well as scanning devices. Corporate Investments includes HP Labs and certain business incubation projects.

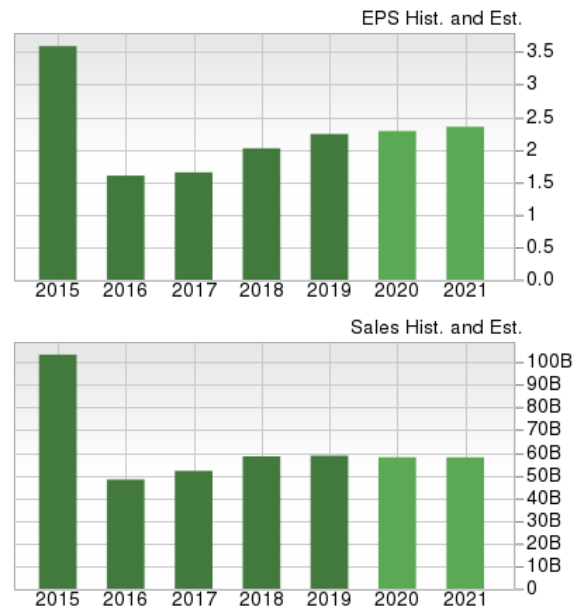
The Personal Systems Group competes with Lenovo, Dell, Acer, Apple, Toshiba and Samsung Electronics while the Printing segment shares space with the likes of Canon, Lexmark International, Xerox, Seiko Epson, The Ricoh Company and Brother Industries.

The company recognized nearly 35% of its fiscal 2018 revenues from the United States while the "Other Countries" contributed to the rest. Other than the United States, no country represented more than 10% of its net revenues.

In the past three fiscal years, notebook PCs, printing supplies and the desktop PCs, each accounted for more than 10% of the company's consolidated net revenue stream.

As of Oct 31, 2018, the company's worldwide patent portfolio included more than 26,000 patents comprising the ones acquired from Samsung.

The company had approximately 55,000 employees worldwide as of Oct 31, 2018.



Reasons To Buy:

- ▲ Product innovation and differentiations are the key drivers that have helped HP in maintaining its leading position in PC market. The company is also one of the largest sellers of printers. HP has been launching several new innovative models in the PC segment as well as in the Printing segment. We believe that the continuous product launches will help HP stay afloat in the current uncertain macroeconomic environment.
- ▲ The worldwide PC market maintained its bullish run in the third quarter of 2019, per IDC and Gartner. Buoyant demand in the commercial market owing to the transition to Windows 10 is boosting PC shipment growth. Gartner added that PC shipments in the quarter were not impacted by either Intel's CPU shortage or the U.S.-China trade war. With the timeline for the potential tariff hike pushed further into 2020, the firm confirmed that the U.S. tariffs on China-manufactured mobile PCs barely affected the PC shipments. Notably, per both the firms, HP held the second spot among the worldwide PC vendors, driven by strong growth across key geographies. Notably, the company achieved growth of 4.6% year over year — the second highest among PC vendors — in shipped units in the quarter, among all PC vendors, per IDC.
- ▲ The acquisition of Samsung Electronics' printer business (S-Print) is believed to be a strategic move by HP to turn around the printer business. The S-Print business has more than 6,500 printing patents, which will help HP expand in the domain. All these will support development and manufacturing of HP printers, going forward. Moreover, it will help HP gain market share from its Japanese rivals – Canon Inc. and Espon, and control prices. Apart from this, the acquisition will also give HP access to Samsung's partners and strengthen HP's position across various geographies.
- ▲ To give a further boost to its Printing business, HP is increasing investments on its A3 multifunction printers (MFPs). These printers are designed to disrupt the traditional \$55 billion A3 copier category. HP's highly scalable and cost-optimized printers will meet the increasing demand of customers' printing needs. We believe that the successful deployment of the new A3 MFPs printers will boost revenue growth for the company, going forward. Additionally, HP expects its acquisition of Europe's largest independent provider of print and document services, Apogee Corporation, to drive growth in contractual office print market. Management believes that A3 is on track to achieve 12% market share by 2020.
- ▲ Apart from fortifying its traditional printing product portfolio, HP is focusing on enhancing its 3D printing business capabilities. Notably, the 3D printing market presents significant long-term investment opportunities as a large number of engineers, designers, architects and entrepreneurs are now turning to 3D solutions for primary designing and product modeling. Thus, in order to establish its base in this space, HP unveiled its Jet Fusion 3D printing solution last year. The company believes that its expanded product portfolio, materials and industrial partnerships will help it cater to the needs of a growing range of customers with a diverse range of manufacturing needs. We believe, growth in the 3D printing portfolio will help it establish a stronger footprint in this intensely competitive market, dominated by well-established players, namely Stratasys, 3D Systems and Voxeljet.

Product innovation and differentiations are the key drivers that are helping HP maintain its leading position in the PC market.

Reasons To Sell:

- ▼ Although, IDC and Gartner reported encouraging third-quarter PC shipment data, the ongoing U.S.-China trade war and imposition of additional tariffs are making the outlook unpredictable for the PC market. IDC feels that the PC market has been “artificially” propped up as the fear of higher tariffs prompted some PC vendors to transit additional units of desktops and notebooks in the last two quarter. Moreover, with the passage of Window’s 10 replacement cycle in January 2020, demand from the business circle is anticipated to weaken, which raises a concern.
- ▼ Rising macro uncertainties and the price sensitivity among customers are undermining the company’s high-margin Printing business. Change in customer purchasing behavior with more commercial customers buying items online, is negatively impacting HP’s Supplies share. Management had earlier stated that the company has a lower market share in that space as compared to its share of traditional commercial resellers and in-store retailers. Further, given the high inventory and pricing issues, the company expects sales for the Printing segment to be weighed on.
- ▼ The company faces stiff competition for its PC and printer businesses. The PC segment competes with Lenovo, Dell, Acer, Apple, Toshiba Corporation and Samsung Electronics, while in the printing segment compete with the likes of Xerox Corporation and Seiko Epson Corporation. Moreover, even though HP has been operating in 3D printing for almost five years now, the company lags behind 3D Systems Corporation and Stratasys.
- ▼ Around 65% of the company’s revenues come from businesses outside the United States. Thus, an economic condition which impacts the foreign currency exchange rates does result in transaction exposure, which leads to profit fluctuation.

Global trade environment, change in customer purchasing behavior and the industry component availability persistently pose key challenges to HP.

Last Earnings Report

HP Q4 Earnings & Revenues Top Estimates

HP delivered fourth-quarter fiscal 2019 non-GAAP earnings from continuing operations of 60 cents per share, beating the Zacks Consensus Estimate by 3.45% and also the year-ago quarterly figure by 11%.

Also, HP's net revenues of \$15.4 billion surpassed the Zacks Consensus Estimate of \$15.3 billion and inched up 0.3% year over year as well. Moreover, in constant currency (cc), revenues rose 2%.

HP's results in the fiscal third quarter benefited from strong growth in Personal Systems revenues. Broad-based growth across all products and geographies is helping the company outperform the PC market. However, weakness in the Printing business is a lingering challenge.

Quarter in Detail

Personal Systems (68% of net revenues) revenues were \$10.4 billion, up 4% year over year. Further, commercial revenues increased 8% but consumer revenues were down 4%.

HP's total units sold rose 8% from the year-ago quarter. Also, Notebooks registered a 9% climb while desktop units improved 5% year over year.

Notebooks (60% of Personal Systems revenues), Desktop (30%) and workstation (6.2%) revenues were up 2%, 5% and 12%, respectively.

Management noted that the company witnessed double-digit revenue growth in retail solutions business and gaming as well as services orders.

Printing business revenues (33.6% of net revenues) were down 6% year over year to \$4.98 billion.

HP's total hardware units sold declined 9%. Moreover, Consumer Hardware unit fell 10% and Commercial Hardware unit dipped 1% on a year-over-year basis.

Commercial Hardware revenues slid 2% year over year. Further, revenues from Consumer Hardware and Supplies decreased 10% and 7%, respectively. Macroeconomic weakness, particularly in Europe, the Middle East and Africa (EMEA), is denting Supplies revenues.

Region wise, at cc, revenues from Americas (44% of net revenues) and Asia-Pacific plus Japan regions (23%) improved 1% and 7%, respectively. Meanwhile, EMEA (33%) revenues were flat.

Operating Results

In the fiscal fourth quarter, gross margin was 19%, up 140 basis points (bps) on a year-over-year basis.

Non-GAAP operating expenses rose 11% year over year to \$1.8 billion due to investments in innovation as well as digital infrastructure. Segment wise, Personal Systems operating margin expanded 160 bps to 5.3%, driven by cost control. However, printing operating margin contracted 40 bps to 15.6% due to lower supplies revenues.

Meanwhile, non-GAAP operating margin from continuing operations of 8.5% expanded 70 bps year over year.

Balance Sheet and Cash Flow

HP ended the fiscal fourth quarter with cash and cash equivalents of \$4.5 billion compared with \$4.9 billion sequentially. The company generated cash flow of \$600 million from operational activities and \$400 million free cash flow during the quarter under review.

HP returned nearly \$700 million to its shareholders in the form of stock repurchases (\$461 million) and cash dividends (\$236 million).

Guidance

For the first quarter of fiscal 2020, HP predicts non-GAAP earnings between 53 cents and 56 cents.

HP expects the competitive pricing environment and Intel's (INTC) CPU shortage to pose concerns for its Personal Systems business. The company expects it to continue into the first-half of 2020 and be more impactful in the first quarter. Moreover, given the softness in the EMEA market, the company anticipates supplies revenues to hurt its Printing business. Further, the company predicts a year-over-year unit market decline in printing, thanks to the drab home market. Also, currency headwinds are a persistent woe.

For fiscal 2020, HP now expects non-GAAP earnings between \$2.24 and \$2.32 per share, upped from the previous guidance of \$2.22-\$2.32. HP expects to return approximately 75% of free cash flow to its shareholders in fiscal 2020.

Quarter Ending **10/2019**

Report Date	Nov 26, 2019
Sales Surprise	0.86%
EPS Surprise	3.45%
Quarterly EPS	0.60
Annual EPS (TTM)	2.23

Recent News

On Nov 4, 2019, HP announced a project, Project Captis, in collaboration with Adobe, to deliver a complete product that can transform physical materials into digital 3D materials.

On Oct 7, 2019, HP announced the expansion of its healthcare portfolio with the launch of HP Healthcare Edition Print Products and Solutions which are planned to be available in Spring 2020 to customers in the United States and Canada.

On Oct 4, 2019, HP announced that it expects fiscal 2020 non-GAAP diluted net EPS to be in the range of \$2.22 to \$2.32. The company also revealed it plans to reduce gross global headcount by nearly 7,000-9,000 employees through employee exits and voluntary early retirement.

On Sep 30, 2019, HP recently enhanced its Spectre x360 convertible laptop portfolio with the addition of a 13 inch model, which is 13% smaller than its predecessor.

On Sep 18, 2019, HP unveiled an ultralight premium convertible notebook HP Elite Dragonfly for mobile business professionals.

Valuation

HP shares gained 17.6% in the past six months and lost 4.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 50.2% and 16.3% in the past six months, respectively. Over the past year, while the Zacks sub-industry gained 80.3%, while the sector grew 32.1%.

The S&P 500 index is up 11.5% in the past six months and 23.9% in the past year.

The stock is currently trading at 9.65X forward 12-month earnings, compared with 21.28X for the Zacks sub-industry, 23.08X for the Zacks sector and 19.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.1X and as low as 3.82X with a 5-year median of 9.32X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$23 price target reflects 10.13X forward 12-month earnings.

The table below shows summary valuation data for HP

Valuation Multiples - HPQ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.65	21.28	23.08	19.3
	5-Year High	13.1	21.28	23.08	19.34
	5-Year Low	3.82	10.12	16.87	15.18
	5-Year Median	9.32	14.13	19.32	17.47
EV/Sales TTM	Current	0.55	4	4.5	3.31
	5-Year High	4.1	4.1	4.5	3.31
	5-Year Low	0.25	1.77	2.56	2.16
	5-Year Median	0.61	2.81	3.47	2.79
EV/EBITDA TTM	Current	6.71	14.86	13.02	12.31
	5-Year High	16.65	14.86	13.02	12.85
	5-Year Low	1.48	5.44	7.68	8.47
	5-Year Median	7.42	9.45	10.53	10.7

As of 02/18/2020

Industry Analysis Zacks Industry Rank: Top 18% (45 out of 255)



Top Peers

Apple Inc. (AAPL)	Outperform
Microsoft Corporation (MSFT)	Outperform
Sony Corporation (SNE)	Outperform
Xerox Corporation (XRX)	Outperform
3D Systems Corporation (DDD)	Neutral
International Business Machines Corporation (IBM)	Neutral
Lenovo Group Ltd. (LNVGY)	Neutral
Stratysys, Ltd. (SSYS)	Neutral

Industry Comparison Industry: Computer - Mini Computers				Industry Peers		
	HPQ Neutral	X Industry	S&P 500	AAPL Outperform	DDD Neutral	LNVGY Neutral
VGM Score	B	-	-	C	F	A
Market Cap	32.32 B	20.30 B	24.50 B	1,395.78 B	1.44 B	8.28 B
# of Analysts	4	4	13	11	5	2
Dividend Yield	3.17%	1.51%	1.78%	0.97%	0.00%	2.05%
Value Score	B	-	-	D	F	A
Cash/Price	0.14	0.12	0.04	0.08	0.09	0.42
EV/EBITDA	7.05	12.35	14.25	17.65	84.73	4.20
PEG Ratio	3.19	3.54	2.08	2.21	5.99	0.61
Price/Book (P/B)	NA	2.84	3.28	15.59	2.84	2.06
Price/Cash Flow (P/CF)	7.94	14.42	13.68	20.91	81.07	5.93
P/E (F1)	9.77	16.64	19.12	23.15	137.84	10.13
Price/Sales (P/S)	0.55	1.39	2.67	5.21	2.23	0.16
Earnings Yield	10.30%	7.10%	5.23%	4.32%	0.74%	9.88%
Debt/Equity	-4.01	0.32	0.70	1.04	0.11	0.53
Cash Flow (\$/share)	2.80	2.56	6.93	15.26	0.15	2.32
Growth Score	B	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	-12.10%	-12.75%	10.84%	9.54%	-23.66%	-13.40%
Proj. EPS Growth (F1/F0)	2.01%	28.30%	7.11%	15.87%	175.86%	37.37%
Curr. Cash Flow Growth	8.32%	2.29%	7.81%	-3.74%	-770.00%	46.98%
Hist. Cash Flow Growth (3-5 yrs)	-18.40%	-5.50%	8.25%	7.40%	-30.40%	11.30%
Current Ratio	0.80	1.22	1.24	1.60	2.29	0.84
Debt/Capital	NA%	34.79%	42.37%	50.97%	11.27%	34.79%
Net Margin	5.36%	3.37%	11.76%	21.49%	-10.74%	1.38%
Return on Equity	-241.43%	3.92%	16.86%	60.19%	-9.77%	17.61%
Sales/Assets	1.80	1.21	0.55	0.80	0.75	1.63
Proj. Sales Growth (F1/F0)	-1.20%	0.94%	4.05%	9.07%	3.08%	-1.29%
Momentum Score	D	-	-	C	D	F
Daily Price Chg	-0.58%	0.35%	-0.38%	-1.83%	2.80%	1.27%
1 Week Price Chg	2.95%	2.24%	1.65%	1.54%	8.06%	-0.86%
4 Week Price Chg	1.27%	1.02%	0.39%	0.77%	8.21%	-6.10%
12 Week Price Chg	10.87%	15.78%	4.84%	20.70%	41.05%	-2.44%
52 Week Price Chg	-4.34%	-5.17%	14.99%	86.63%	-12.23%	-6.00%
20 Day Average Volume	9,028,027	5,514,310	1,996,897	31,460,860	2,000,592	21,115
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.23%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.01%	4.69%	0.00%	0.00%
(F1) EPS Est 12 week change	2.19%	1.10%	-0.21%	5.50%	0.00%	-7.17%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.26%	5.17%	0.00%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.