

HP Inc. (HPQ)

\$15.38 (As of 03/25/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 02/25/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: C

Summary

HP is benefiting from growing demand in the Commercial PC market. Increase in sales for commercial customers is a tailwind. Strong growth in Personal Systems revenues was a tailwind. Solid revenue growth in retail solutions business and gaming as well as services orders is a positive. Further, stringent cost control is driving margin expansion. The company's improving market share across the PC and Printer businesses makes us optimistic. Moreover, HP expects to return approximately \$16 billion to shareholders over the next three years, which is encouraging. 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. Shares have underperformed the industry in the past year.

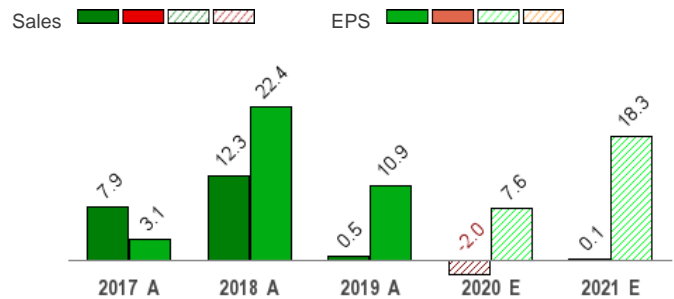
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.93 - \$12.54
20 Day Average Volume (sh)	16,194,306
Market Cap	\$22.0 B
YTD Price Change	-25.2%
Beta	1.36
Dividend / Div Yld	\$0.70 / 4.6%
Industry	Computer - Mini computers
Zacks Industry Rank	Top 7% (18 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.4%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	1.1%
Expected Report Date	05/28/2020
Earnings ESP	0.0%
P/E TTM	6.5
P/E F1	6.4
PEG F1	2.1
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	14,827 E	13,900 E	14,064 E	14,512 E	57,652 E
2020	14,618 A	13,502 E	14,176 E	14,982 E	57,578 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	\$0.66 E	\$0.67 E	\$0.74 E	\$0.74 E	\$2.85 E
2020	\$0.65 A	\$0.50 E	\$0.59 E	\$0.65 E	\$2.41 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 03/25/2020. The reports text is as of 03/26/2020.

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 \$58.8 billion in fiscal 2019. HP has three reportable segments: Personal Systems, Printing and Corporate Investments.

The Personal Systems segment (65.8% of FY19 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 (34.2%) 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.

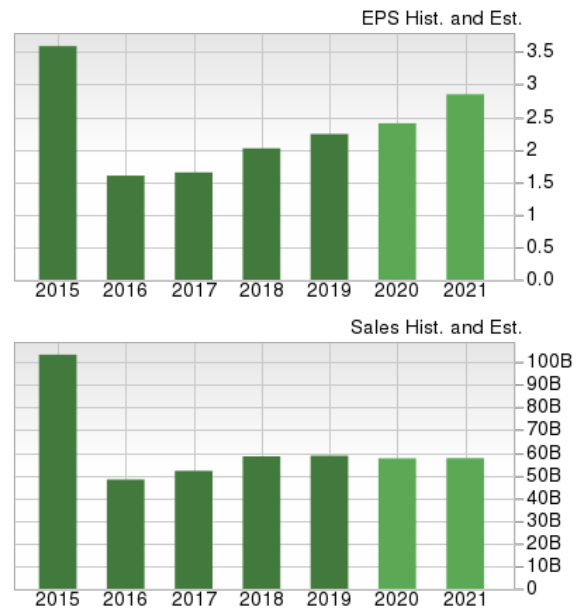
The Personal Systems Group competes with Lenovo, Dell, Acer, Apple, Toshiba and Samsung Electronics while the Printing segment shares space with the likes of Canon, Lexmark International, Xerox, Seiko Epson, The Ricoh Company and Brother Industries.

The company recognized 35.1% of its fiscal 2019 revenues from the United States while "Other countries" contributed to the rest of the 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, 2019, the company's worldwide patent portfolio included more than 27,000 patents comprising the ones acquired from Samsung.

The company had approximately 56,000 employees worldwide as of Oct 31, 2019.



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 fourth 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. Per IDC, the adoption of AMD CPUs, easing trade tensions and other industry drivers helped boost the market upsurge in the holiday season. 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 Epson, 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.

Risks

- Although, IDC and Gartner reported encouraging second-quarter PC shipment data, their forward-looking statements make us slightly cautious about the PC industry's prospects. 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 second quarter. Further, Gartner added that with the levy of tariffs, the laptops and tablets manufactured in China could face a significant price hike in the United States. 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. This makes us cautious about HP's prospects.
 - 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.
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Last Earnings Report

HP Q1 Earnings Top, Personal Systems Revenues Rise

HP delivered first-quarter fiscal 2020 non-GAAP earnings from continuing operations of 65 cents per share, beating the Zacks Consensus Estimate by 3.45% and also the year-ago quarterly figure by 20.4%.

HP's net revenues of \$14.618 billion surpassed the Zacks Consensus Estimate of \$14.613 billion but declined 0.6% year over year. However, in constant currency (cc), revenues rose 1%.

HP's results in the fiscal first quarter benefited from strong growth in Personal Systems revenues. However, soft consumer market and weakness in the Printing business remain concerns.

Quarter Ending **01/2020**

Report Date	Feb 24, 2020
Sales Surprise	0.03%
EPS Surprise	20.37%
Quarterly EPS	0.65
Annual EPS (TTM)	2.36

Quarter in Detail

Personal Systems revenues (68% of net revenues) were \$9.89 billion, up 2.4% year over year (3.8% in CC). Further, commercial revenues increased 7% but consumer revenues were down 7%.

HP's total units sold rose 4% from the year-ago quarter. Notebooks registered a 2% climb while desktop units improved 7% year over year. Notebooks (41%), Desktop (20%) and Workstation (7%) revenues were up 1%, 2% and 6%, respectively.

Printing business revenues (32% of net revenues) were down 6.6% year over year (down 5.8% in CC) to \$4.72 billion.

HP's total hardware units sold declined 10%. Moreover, Consumer Hardware unit fell 10% and Commercial Hardware unit dipped 12% on a year-over-year basis.

Commercial Hardware revenues (7%) slid 1% year over year. Further, revenues from Consumer Hardware (4%) and Supplies (21%) decreased 13% and 7%, respectively.

Region wise, at cc, revenues from Asia-Pacific plus Japan region (23%) grew 4%. Meanwhile, Europe, the Middle East and Africa (EMEA) revenues (36%) were flat. Revenues from Americas (41% of net revenues) declined 1%.

Operating Results

Segment wise, Personal Systems operating margin expanded 250 basis points (bps) to 6.7%, driven by cost control. However, printing operating margin contracted 20 bps to 16% due to lower supplies revenues.

Meanwhile, non-GAAP operating margin from continuing operations of 8.1% expanded 120 bps year over year.

Balance Sheet and Cash Flow

HP ended the fiscal first quarter with cash and cash equivalents of \$4.21 billion compared with \$4.5 billion sequentially.

The company generated cash flow of \$1.3 billion from operational activities and \$1.1 billion free cash flow during the quarter under review.

HP returned nearly \$900 million to its shareholders in the form of stock repurchases (\$700 million) and cash dividends (\$300 million).

Guidance

HP expects coronavirus to adversely impact its top line, bottom line and free cash flow in the fiscal second quarter.

For the second quarter of fiscal 2020, HP predicts non-GAAP earnings between 49 cents and 53 cents.

HP expects the competitive pricing environment and Intel's CPU shortage to remain concerns for its Personal Systems business.

For fiscal 2020, HP now expects non-GAAP earnings between \$2.33 and \$2.43 per share, upped from the previous guidance of \$2.24-\$2.32.

HP expects to return approximately \$16 billion to shareholders over the next three years, with minimum of \$8 billion of shares repurchased in the 12 months. In order to support this, the company increased the total share repurchase authorization to \$15 billion from \$5 billion announced in October 2019.

Recent News

On Mar 24, HP announced that it is building 3D printed hands-free door openers, mask adjusters and face shields, and has already supplied more than 1,000 of these to hospitals. The products are being manufactured at its 3D research and development centers in San Diego; Corvallis, OR; Vancouver, WA; and Barcelona.

On Mar 11, HP launched several digital printers and printing solutions to accelerate its transition from analog to digital printing. The portfolio of HP Indigo digital labels and packaging has been created especially to be demonstrated in the drupa 2020, which is scheduled to be held from Jun 16-26.

Valuation

HP shares lost 16.9% in the past six months and 18.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 12% and down 6.8% in the past six months, respectively. Over the past year, while the Zacks sub-industry gained 28.9%, while the sector lost 4.3%.

The S&P 500 index has declined 16.8% in the past six months and 13.3% in the past year.

The stock is currently trading at 5.95X forward 12-month earnings, compared with 16.67X for the Zacks sub-industry, 17.92X for the Zacks sector and 14.72X for the S&P 500 index.

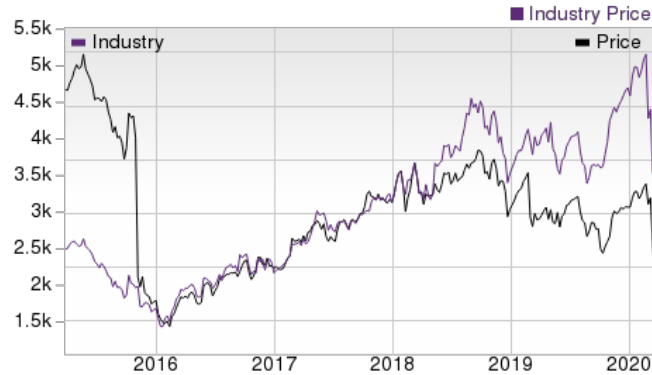
Over the past five years, the stock has traded as high as 13.1X and as low as 3.82X with a 5-year median of 9.33X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$18 price target reflects 6.84X forward 12-month earnings.

The table below shows summary valuation data for HP

Valuation Multiples - HPQ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	5.95	16.67	17.92	14.72
	5-Year High	13.1	20.97	22.02	19.34
	5-Year Low	3.82	10.12	16.85	14.72
	5-Year Median	9.33	14.28	19.3	17.42
EV/Sales TTM	Current	0.37	3.11	3.44	2.46
	5-Year High	4.1	4.15	4.48	3.45
	5-Year Low	0.25	1.77	2.57	2.16
	5-Year Median	0.58	2.81	3.54	2.83
EV/EBITDA TTM	Current	4.25	11.39	9.97	9.07
	5-Year High	16.98	15.13	12.92	12.88
	5-Year Low	1.45	5.37	7.59	8.27
	5-Year Median	7.39	9.57	10.6	10.78

As of 03/25/2020

Industry Analysis Zacks Industry Rank: Top 7% (18 out of 253)



Top Peers

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

Industry Comparison Industry: Computer - Mini Computers				Industry Peers		
	HPQ Outperform	X Industry	S&P 500	AAPL Neutral	DDD Neutral	LVN Neutral
VGM Score	A	-	-	C	B	A
Market Cap	21.99 B	14.04 B	17.53 B	1,074.27 B	821.30 M	6.10 B
# of Analysts	4	3.5	13	10	4	2
Dividend Yield	4.58%	2.02%	2.47%	1.25%	0.00%	2.78%
Value Score	B	-	-	D	F	A
Cash/Price	0.21	0.20	0.07	0.11	0.19	0.60
EV/EBITDA	4.70	3.79	10.68	13.54	-109.25	2.88
PEG Ratio	2.09	1.80	1.64	1.80	NA	0.55
Price/Book (P/B)	NA	1.60	2.32	12.00	1.60	1.52
Price/Cash Flow (P/CF)	5.49	10.79	9.40	16.09	134.20	4.37
P/E (F1)	6.41	7.99	14.14	18.89	NA	7.99
Price/Sales (P/S)	0.37	0.84	1.82	4.01	1.31	0.12
Earnings Yield	15.60%	8.90%	7.02%	5.29%	-0.29%	12.51%
Debt/Equity	-2.41	0.31	0.70	1.04	0.09	0.53
Cash Flow (\$/share)	2.80	2.56	7.01	15.26	0.05	2.32
Growth Score	B	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	-8.88%	-8.08%	10.85%	9.54%	-23.66%	-7.29%
Proj. EPS Growth (F1/F0)	7.37%	20.39%	3.53%	9.34%	78.13%	28.28%
Curr. Cash Flow Growth	8.32%	2.29%	5.93%	-3.74%	-64.21%	46.98%
Hist. Cash Flow Growth (3-5 yrs)	-18.40%	-5.50%	8.55%	7.40%	-43.37%	11.30%
Current Ratio	0.73	1.22	1.23	1.60	2.29	0.84
Debt/Capital	NA%	34.79%	42.57%	50.97%	8.09%	34.79%
Net Margin	5.16%	3.30%	11.64%	21.49%	-11.11%	1.43%
Return on Equity	-261.23%	4.02%	16.74%	60.19%	-9.91%	17.95%
Sales/Assets	1.81	1.21	0.54	0.80	0.74	1.62
Proj. Sales Growth (F1/F0)	-2.00%	0.51%	2.51%	3.29%	3.03%	-3.25%
Momentum Score	C	-	-	C	C	A
Daily Price Chg	-0.58%	0.94%	2.41%	-0.55%	7.11%	2.42%
1 Week Price Chg	-18.80%	-15.95%	-16.96%	-17.53%	-7.23%	-14.36%
4 Week Price Chg	-32.28%	-27.46%	-23.98%	-16.11%	-32.32%	-22.64%
12 Week Price Chg	-25.16%	-22.47%	-27.80%	-16.39%	-20.80%	-24.14%
52 Week Price Chg	-18.75%	-26.81%	-18.55%	30.27%	-34.87%	-44.29%
20 Day Average Volume	16,194,306	9,577,496	4,285,848	77,584,360	2,960,685	63,285
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.58%	0.00%	0.00%
(F1) EPS Est 4 week change	1.05%	-2.36%	-1.83%	-4.73%	-85.29%	0.00%
(F1) EPS Est 12 week change	5.58%	2.51%	-2.90%	-0.55%	-85.29%	9.48%
(Q1) EPS Est Mthly Chg	-5.66%	-9.77%	-1.37%	-13.87%	-15.00%	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	C
VGM Score	A

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

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