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HP, Inc. (HPQ)

Acquisition of Plantronics, Inc by HP, Inc Call

CORPORATE PARTICIPANTS

Orit Keinan-Nahon

Vice President-Finance & Head-Investor Relations, HP, Inc.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

Alex Cho

President-Personal Systems, HP, Inc.

Marie E Myers

Chief Financial Officer, HP, Inc.

OTHER PARTICIPANTS

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Toni Sacconaghi

Analyst, Sanford C. Bernstein & Co. LLC

Ananda Baruah

Analyst, Loop Capital Markets LLC

Aaron Rakers

Analyst, Wells Fargo Securities LLC

Sidney Ho

Analyst, Deutsche Bank Securities, Inc.

Wamsi Mohan

Analyst, BofA Securities, Inc.

Kyle McNealy

Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the HP Incorporated Conference Call. My name is Jason. I'll be your conference moderator for today's call. At this time, all participants will be in 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 Orit Keinan-Nahon, Head of Investor Relations. Please go ahead.

Orit Keinan-Nahon

Vice President-Finance & Head-Investor Relations, HP, Inc.

Hello, everyone. I'm Orit Keinan-Nahon, Head of Investor Relations for HP Inc., and I would like to welcome you to today's conference call. With me today are Enrique Lores, HP's President and Chief Executive Officer; Marie Myers, HP's Chief Financial Officer; and Alex Cho, HP's President of Personal Systems.

Before handing the call over to Enrique, let me remind you that this call is being webcast. A replay of the webcast will be made available shortly after the call for approximately one year. We posted today's press release and an accompanying slide presentation on our Investor Relations webpage at www.hp.com.

We know that elements of this presentation are forward-looking and are based on our current expectations and assumptions. These statements are not guarantees of future performance and are subject to certain risks,

assumptions, uncertainties and other factors, many of which are beyond our control and are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. For more detailed information, please see the information in the slide presentation and press release relating to forward-looking statements.

For a discussion of some of these risks, uncertainties, and assumptions, please refer to HP's SEC filings, including our most recent Form 10-K and Form 10-Q. HP assumes no obligation and does not intend to update such forward-looking statements.

Now, I will hand over the call to Enrique.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

Hello, everyone, and thank you for joining the call. This morning, we announced a definitive agreement to acquire Poly. This is a compelling combination that accelerates HP's strategy to create a more growth-oriented portfolio, and further strengthens our industry opportunity in hybrid work solutions. Importantly, the transaction positions HP for long-term profitable growth and value creation.

The pandemic has transformed the role technology plays in people's lives. We believe the rise of a hybrid office is creating a once-in-a-generation opportunity to redefine the way work gets done. And this is a long-term secular trend that's driving strong and sustained demand for solutions that enable seamless collaboration across home and office environments.

Today's announcement demonstrates how we are capitalizing on attractive growth opportunities through strategic M&A. It also supports a plan we outlined at our last Analyst Day to expand into adjacencies and accelerate new solutions that strengthen our value proposition.

The acquisition of Poly directly advances our strategy across the board. I have asked Alex Cho, President of our Personal Systems business; and Marie Myers, our Chief Financial Officer, to join the call today to provide their perspectives on the deal.

Before handing the call over to them, let me first provide some color on why this is a great strategic fit for HP.

To start, Poly will help to accelerate our growth and scale in peripherals and workforce solutions, two of our five key growth areas. The peripheral segment is expected to reach \$110 billion by 2024 and is growing at 9% CAGR. Poly's leadership in video conferencing, cameras, headsets, and software, will significantly broaden our peripherals portfolio and position us well in the rapidly growing meeting room solution industry.

We see equally attractive opportunities in workforce solutions. The workforce solutions' TAM is expected to reach \$120 billion by 2024 and is growing at an 8% CAGR. This growth is being driven by companies investing in digital services that enable IT to seamlessly set up, manage, and secure a more distributed IT ecosystem.

Poly's devices and software, combined with HP's strength across compute, device management, and security, create a leading end-to-end portfolio of hybrid solutions. Together, we will provide customers with a unified platform that simplifies IT administration and provides a comprehensive solution for today's hybrid workforce.

By combining Poly's leadership in the A/V channel, along with our complementary sales and customer service teams, we expect to drive increased penetration and refresh.

Additionally, by leveraging our global scale in manufacturing, procurement, and logistics, we expect to improve Poly's supply chain constraints and drive improved margins going forward. This transaction is also going to drive a wide range of new innovation, which Alex is going to talk more about.

The final point I will make is that this transaction is designed to drive long-term profitable growth and shareholder value creation.

At close, we expect this to be immediately accretive to revenue growth, margins, and non-GAAP EPS. And by utilizing our channel and scale, we expect to accelerate Poly's revenue growth and improve the operating margins.

The transaction is consistent with our capital returns program's target, and we remain committed to aggressively buy back shares of at least \$4 billion in fiscal year 2022. Marie will expand on the financials shortly.

Let me close by saying that we are excited to welcome the Poly team to HP. It is a great company with great people and strong values that align well with HP's. We see this as an excellent cultural fit, and we look forward to coming together as one team following the completion of the acquisition. Together, HP and Poly have significant growth opportunities ahead.

Let me stop there and ask Alex to provide you with some additional details.

Alex Cho

President-Personal Systems, HP, Inc.

Thank you, Enrique. It's an exciting day for HP. From an innovation and customer experience perspective, this is a very compelling deal for us for three key reasons. It accelerates momentum in the growing hybrid work segment. It combines two innovative companies to create a highly differentiated portfolio of end-to-end solutions. And it paves the way for us to create and deliver meaningful collaboration experiences for customers, regardless of where they are working.

I want to talk a little bit about each of these, starting with the market opportunity. Hybrid represents a structural shift in how and where work gets done. Three-quarters of workers are setting up more productive home offices as they prepare to permanently work from home, at least part of the time. And as they do, they are prioritizing audio and video quality. And with 60% saying they feel left out when joining meetings from home while others are in the office, it's clear why they want better collaboration solutions.

Companies are also making significant investments to support these new ways of working. In fact, many people are choosing employers based on the technology and flexibility they provide. And companies are reconfiguring their office spaces with hybrid collaboration in mind. Of the more than 90 million collaboration spaces that exist today, less than 10% are currently equipped with video capabilities.

This means they need new technology, which is why the meeting room device industry is projected to triple by 2024. And they also need new services to be able to manage and secure these new hybrid office environments. All of this creates immense opportunity.

The second compelling aspect of this deal is the advantage and differentiation we can achieve by combining our two companies. Together, we are well-positioned to benefit from the trends I just shared. Like HP, Poly has a rich

history of innovation. They are a leader in one of the most respected names in meeting room solutions, and they bring great audio and visual technology, software and services, including more than 1,100 patents.

Combining Poly's audio and video capabilities with HP's leadership in compute solutions will allow us to capitalize on the foundational shift to cloud-based unified communication platforms. Platforms like Zoom and Teams are becoming the primary way people connect and collaborate, whether working from home or the office.

And as people incorporate other applications into the way they work, be it sharing presentations or working together on content from multiple locations, we will be able to provide a seamless end-to-end experience.

The final point I will make is that this deal is most exciting because it creates value and meaningful experiences for our customers. Whether working from home or the office, our combined innovation delivers the superior collaboration experiences and users are looking for HP's leadership across compute, device management, and security.

Together with the Poly portfolio and meeting room services, it's a winning combination that will empower people to work from anywhere without compromise.

As well, IT administrators are seeking new solutions to make the shift to hybrid easier; more people connecting from more locations makes it more difficult to set up, manage, and secure a broad range of devices. Our end-to-end solutions will help customers solve this.

This is especially valuable when it comes to managing meeting rooms. The modern meeting room is becoming the new center for office work. Today, most IT departments do not have visibility into meeting room solutions like they do the traditional office environment of desks and PCs.

This makes it difficult for them to provide service and support. By bringing together Poly's meeting room solutions with our TechPulse device management platform, we will help IT bridge this gap. I can't wait to get started because I see so much potential ahead.

But let me stop here and turn it to Marie to talk about the financials.

Marie E Myers

Chief Financial Officer, HP, Inc.

Thank you, Alex. Today's announcement is an important step in HP's growth journey, and will bring about significant benefits from a strategic and a financial perspective. We expect the opportunities to capitalize on both secular tailwinds and synergies will be accretive to HP's long-term revenue, operating profit and non-GAAP EPS growth.

With the expanded value proposition of an end-to-end hybrid work solution, combined with HP's go-to market capabilities, we expect to realize substantial revenue synergies in both peripheral and meeting room solutions. We will be able to cross-sell across our global commercial and consumer sales channels, while driving incremental sales from combining Poly's products with HP's PCs.

And we expect to achieve \$500 million of revenue synergies by FY 2025, accelerating Poly's revenue growth to an approximately 15% CAGR over the first three years after closing. And as Enrique mentioned, by leveraging our global scale in manufacturing, procurement, and logistics, we expect to drive an improvement in Poly's supply chain constraints and drive higher margins going forward.

Further cost savings from overhead efficiencies and streamlining operations will provide incremental savings opportunities. Overall, we expect to improve Poly's operating margins by approximately 6 percentage points from current level by FY 2025.

During the integration phase, we will remain focused on minimizing business disruptions while driving synergy capture. We expect this transaction to close by the end of calendar year 2022, pending regulatory review and other customary closing conditions. We expect the transaction to be accretive to non-GAAP EPS in the first year after close, and to support our 2% to 4% revenue growth target over the next three years.

This transaction will be funded with a combination of existing cash on the balance sheet, as well as additional debt. We remain committed to our FY 2022 share repurchases of at least \$4 billion as we continue to return significant amounts of capital to shareholders even as we invest for future growth.

We expect to be within our target leverage range of 1.5x to 2x by the time this transaction closes. We remain committed to our policy of returning at least 100% of free cash flow to shareholders unless higher return opportunities become available.

In conclusion, we believe the powerful combination of the technology and portfolios accompanied by our scale and go-to-market and combined with our ability to address the ongoing supply chain issues through our operation capabilities will result in an acceleration of revenue growth and a direct improvement in margins.

And when you combine this with an attractive valuation, this results in a very compelling investment for HP and a great opportunity of value creation. I'll end by saying that today's news is part of a strategy we shared with you last fall at our Analyst Day to build a stronger HP. And we look forward to getting this deal done.

I know you had questions, so I'll stop here and let's open the lines.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Jim Suva from Citigroup. Please go ahead.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

Thank you very much. Never a slow time in the life of HP it seems like, for sure. So, thanks for the call. Marie, I believe it was slide 10 it looks like you talk about 6 points of operating margin improvement by fiscal 2025.

Can you give us a little bit more color on that? Is that mostly through cost of goods sold or the OpEx line? Or I'm sure it's a whole handful of lots of them, but kind of where kind of the biggest maybe one, two, or three buckets that you see of getting at 6 points of operating margin improvement. Thank you so much.

Marie E Myers

Chief Financial Officer, HP, Inc.

A

Hey, Jim, good morning and thank you for your question. And so, let me unpack how to think about the cost synergies and the operating margins. So, as I mentioned on the call, we expect the operating margins to expand around 600 basis points within three years of close. And really, Jim, it's in two areas.

I'll give you some color in terms of how to think about that. So, from a gross margin perspective, as you heard Enrique say earlier on the call, we expect improvements in a combination of manufacturing, supply chain, procurement efficiencies because of our scale. And we see that contributing to the gross margin line.

Now, on the operation side, we will also see benefit, say, relative to just the opportunity from our scale and what that brings in terms of us being able to look at consolidation of sales channels, et cetera, and marketing efficiencies, et cetera. So, in summary, we expect, Jim, that those incremental savings will really come from a combination of both gross and operating expense.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Yeah, I think, Jim, what I would highlight is, as Marie was saying, savings come from both sides, OpEx and also operational improvement compared to other deals of this size. In this case, what is more relevant are the operational improvements driven by scale. Our scale matters and we really think we can have a significant positive impact on the performance of Poly.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

Thank you so much for the details and congratulations on the news.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Thank you, Jim.

Operator: Our next question comes from Erik Woodring from Morgan Stanley. Please go ahead.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning, guys. Congrats on announcing the deal this morning. I guess maybe if we just start with some of the revenue synergies that you alluded to. If you just look at consensus forecast, they're forecasting Poly revenue growth of roughly 2% annually over the next three years versus your expectations for roughly 15% growth.

And so, maybe you can just – similar to how you just fleshed out some of the cost synergies, maybe just talk about some of the – detail of some of the synergies you expect on the revenue side to really accelerate revenue growth to a level that Poly hasn't seen in over a decade at least. Thanks.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Yeah. Marie, do you want to take that one as well?

Marie E Myers

Chief Financial Officer, HP, Inc.

A

Sure. Sure, Enrique. And good morning, Erik, and thank you for your question. And as we said, yes, we're very excited about this deal. So, let me give you some color in terms of how to think about those revenue synergies of what we're thinking.

So, first of all, as you've heard sort of the strategic imperative here, the real opportunity here is going to come from the ability that we have to accelerate Poly's peripherals business. And obviously, I think it was a great comment earlier today, there's like a once in a lifetime opportunity that's being driven by hybrid, so peripherals plays very well in that space.

And then, secondly, the ability for us to really able to combine our innovation, I think, as Alex referred to, to create this highly differentiated portfolio, right, in terms of those end-to-end solutions, the ability to cross-sell across both portfolios and, obviously, areas like the meeting room solutions, I think there was a great comment here earlier today from Alex around just the fact that the whole meeting room space is very much just evolving and growing very quickly.

So, these are the core areas. And then I just add that we also do expect to see incremental sales even inside our own commercial PCs, because we see PCs being bundled with Poly's hybrid work solutions. So, these are really the key areas that we see in terms of where those revenue synergies are going to come from.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Yeah. It's really important to highlight, Erik, that the go-to-market engines from both companies are very complementary. As you know, HP has a great go-to-market model for retail, for commercial channels, for enterprise. Poly brings great specialists for audio/video solutions, and they also have a strong presence in the audio/video channel, where HP is not. So, this gives us a lot of – this will give us a lot of momentum as we combine the portfolios, as we combine the go-to-market. And additionally, also their growth has been constrained by supply chain, and this is another area where the scale of our supply chain will help to accelerate their growth.

So, really growth driven by innovation, as Marie was saying, complementary go-to-market and the impact that our supply chain is going to have in providing them or enabling them to build more product.

Erik W. Woodring*Analyst, Morgan Stanley & Co. LLC*

Q

No, that's really helpful. Thank you. And then, maybe just as my follow-up, any details you can share on how maybe we should think about cash usage versus debt you might go to market to raise, and just the mix of those two as you think about funding this acquisition. And that's it for me. Thank you.

Enrique Lores*President, Chief Executive Officer & Director, HP, Inc.*

A

Okay. Thank you. Marie?

Marie E Myers*Chief Financial Officer, HP, Inc.*

A

Yeah. Yeah, thanks again, Erik. So, I just say, look, we're expecting to finance the acquisition with a combination of both debt and cash. So, that's how we're thinking about it right now.

Operator: Our next question comes from Samik Chatterjee from JPMorgan. Please go ahead.

Samik Chatterjee*Analyst, JPMorgan Securities LLC*

Q

Hi. Good morning. Thanks for taking my question, and congrats on the announcement as well. I guess, if I can just start with one on the synergies. The revenue synergies you've talked about \$500 million in three years. If you could just maybe dig into that from the aspect of how much of that you're expecting to come from the commercial or enterprise segment versus consumer.

And what sort of investments in the channel would you need to accelerate growth? Sounds like you're thinking you can accelerate growth from year one. So, what sort of proactive investments you would need to make before even you sort of close the deal to drive that? And I have a quick follow-up. Thank you.

Enrique Lores*President, Chief Executive Officer & Director, HP, Inc.*

A

Yeah. Let me start, and then maybe, Alex, you want to add a few comments. We expect the majority of the growth to come from the commercial side. And this was one of the reasons why we thought Poly was a great asset, and it will come both from selling through our current channels, their solutions, but also through leveraging their audio/video special channels and go-to-market to accelerate ours.

All the investments are built into our plans, and this is really what will be driving the growth that we are predicting to have. Alex?

Alex Cho*President-Personal Systems, HP, Inc.*

A

Yeah. Maybe I'll just add is just to quantify what this means in the commercial space. Yeah, there's 90 million conferencing spaces out there and less than 10%, as we mentioned before, have any kind of equipment and

technology. So, that's a massive opportunity. And what's so important is that they're compute-enabled spaces. That's why the complementarity of our portfolio works very well.

The other thing to note is we're going to be able to leverage both our retail, as well as commercial channels, because increasingly, customers are purchasing from both in order to set up their home offices and we know that there is a significant population of employees who are now electing to work at least part time from home.

So, our channel reach will allow us to be able to take advantage of the Poly portfolio together with ours across all of these channels, which will be an immediate growth acceleration for both companies.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Q

All right. Thank you. And for my follow-up, I have a quick one for Marie. Marie, any color on what the combined cash flow for the companies could look like? What would your free cash flow look like once you achieve those synergies over the three-year period that you're assuming as part of the deal? Thank you.

Marie E Myers

Chief Financial Officer, HP, Inc.

A

Thanks for your question, Samik. So, at this point in time, no outlook on cash flow, but we expect when we close the deal at the end of the year, we'll definitely incorporate that into our outlook that we provide then, Samik.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Q

Okay. Thank you. Thanks for taking my questions.

Marie E Myers

Chief Financial Officer, HP, Inc.

A

Thank you.

Operator: The next – I'm sorry. Next question comes from Toni Sacconaghi from Bernstein. Please go ahead.

Toni Sacconaghi

Analyst, Sanford C. Bernstein & Co. LLC

Q

Yes. Thank you. I was wondering if you can just clarify exactly what the starting base for the operating – expected operating margin improvement. Is that sort of 11% to 12%, which is, year-to-date, operating margins from Poly? And how do we think about that in the context of operating margins were 19% in 2019. Are you suggesting you could get back to historical levels? Or, I guess, given the synergies that you outlined, why wouldn't you be able to actually do better than getting back to historical level? So, maybe you can just clarify starting point, expected ending point, and how and why that compares with sort of pre-pandemic levels of 19%. And I have a follow-up, please.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Marie?

Marie E Myers*Chief Financial Officer, HP, Inc.*

A

Sure. Toni, good morning, and thanks for your question. So, I'd say, look, in terms of operating margin, Toni, as we pointed out earlier, we do expect the increase of around about 600 basis points, and that's really within three years after closing. And, obviously, we kind of walked you through the details about saying in terms of what the starting point is. The way to think about it is in terms of the current fiscal year.

Now with respect to the ending point and can we do better and your comments about 19%, obviously, Toni, if we can do better, we always will. So, that's our commitment that at this point in time, based on where we're at in the transaction, we are confident with our outlook of really improving operating margins here, that 600 basis points, within the three years.

And I would just add, obviously, we'll provide updates to the outlook, Toni, as the deal itself closes out here too as well.

Toni Sacconaghi*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Right. Well, thank you. Maybe you could just provide color on what's gone wrong, like why it's gone from 19% to 11% in terms of the operating margin? And are you simply just undoing things that went wrong?

And then my second question is just on what the status – Poly's talked a lot about having supply issues. How big is their backlog and is that a meaningful contributor to expected revenue growth over the next three years? So, can you give us a sense of what the size of your backlog is or how big it is relative to normal currently?

Enrique Lores*President, Chief Executive Officer & Director, HP, Inc.*

A

Yeah. Let me take that one. I think, Toni, the answer to both questions is related. The major impact that the business has had has been because of the novel ability of components and the impact this has had in their sales in the short term. And this has driven a very elevated backlog that – it was quantified by Dave and the team in the previous – in the last call. And yes, as we address that and as we bring the capacity and the scale of our supply chain, backlog will help to accelerate the growth, especially in the short term.

Now, what is really important to realize is that this, the hybrid work model, is a growing market, growing market both for – to enable people to work from home, but also, as Alex explained, to equip offices for the new hybrid model.

Only 10% of the offices have been equipped with video conferencing solutions. We expect that more and more will be as people or companies will start reopening and allow people to work from home, as HP will be doing. And this will be a significant tailwind, because both markets will drive growth for the company.

Marie E Myers*Chief Financial Officer, HP, Inc.*

A

And just to add to Enrique's comments on backlog, Toni. So, over the last couple quarters, the backlog's actually increased. So, I think that's a really good indication of the strength of demand that's in this space as well.

Operator: Our next question comes from Ananda Baruah from Loop Capital. Please go ahead.

Ananda Baruah*Analyst, Loop Capital Markets LLC*

Q

Yeah, good morning, guys. Thanks for taking the questions and, yeah, congrats on the deal. Yeah, just two quick ones, if I could. Now that you guys are leaning into this a little bit more, should we expect M&A to be kind of the way that you guys get the scale in peripherals and related initiatives that you've been talking about?

Enrique Lores*President, Chief Executive Officer & Director, HP, Inc.*

A

Well, let me go back to what we shared during our Analyst Day, Ananda, which was that we identify five growth areas, and we said that we would be using M&A to accelerate our growth in those spaces, and both peripherals and workplace solutions were two of the five areas. And this acquisition is going to be helping us on both. And this will really help us to continue to expand our growth portfolio, which was one of our key plans or key strategies during the last Investor Day.

So, at this point, in peripherals, we have built a strong portfolio, both in the hybrid space with Poly and on gaming with HyperX, and now we're really about materializing the opportunities in both cases and are accelerating our growth in these two categories.

Ananda Baruah*Analyst, Loop Capital Markets LLC*

Q

Okay, great. And then just real quickly, Enrique, there is – and this may have been Alex who made this remark, but there is a remark in the prepared remarks about increased refresh. And I missed the context on that, and just would love to get that context. Is that...

Enrique Lores*President, Chief Executive Officer & Director, HP, Inc.*

A

Yeah. I think it comes from some of the opportunities that we have described during the call. If you think about video conference rooms, they are not designed for a hybrid way of working where some people is in the room, some people are working from home. So, most companies, including HP, are redesigning our setups to make sure that we provide an inclusive system for people that will be connecting from home.

This will be driving the refresh. As employees continue to set up home office environment, they will also invest in driving and improving their connections. And what we have shared in the past is that peripherals have a refresh rate that is faster than PCs. So, also part of the opportunity is driven by that.

Operator: Our next question comes from Aaron Rakers from Wells Fargo. Please go ahead.

Aaron Rakers*Analyst, Wells Fargo Securities LLC*

Q

Yeah, thanks for taking the question and also congratulations on the deal. I want to go back to kind of the go-to-market synergies. As you think about bringing Poly into the portfolio, the umbrella of HP, is there anything you can share with us of how much Poly's business is driven by similar go-to-market channels as HP today? Or maybe taken another way, how much incremental revenue growth you just see from this transaction being able to be driven across the go-to-market of HP? And I have a quick follow-up.

Enrique Lores*President, Chief Executive Officer & Director, HP, Inc.*

A

Sure. Alex, do you want to take that one?

Alex Cho*President-Personal Systems, HP, Inc.*

A

Yeah. Yeah, Aaron. So, first is Poly's channels are very much related to audio/video sales, as well as more traditional peripherals. One of the things that we bring and reason why we think it's so complementary is that we know that these peripherals are also heavily bought by commercial customers in retail channels – and the much larger commercial channels.

So we'll be able to add that, as well as the fact that so much of meeting rooms now is becoming more IT-centric. So, just the breadth of our commercial IT-centric channels adds that breadth to their great portfolio; again, a very complementary across audio/video, commercial, retail, and online spaces that we can take the combined portfolio and accelerate.

Aaron Rakers*Analyst, Wells Fargo Securities LLC*

Q

Yeah. And then as a quick follow-up, just going back to that refresh rate, I think in the slide deck you talk about 30 million end devices. I mean, is there anything you can help us understand of the age of that installed base, how maybe that factors into the expectations as we think about the accelerated revenue growth post this acquisition?

Enrique Lores*President, Chief Executive Officer & Director, HP, Inc.*

A

Alex?

Alex Cho*President-Personal Systems, HP, Inc.*

A

Yeah, yeah. Let me just jump to that. So, I think there's a lot of opportunity, because, as Enrique said, when you look at peripherals, they refresh faster and our reference point given our business is a PC, so you have peripherals that are refreshing at a faster rate than PCs. And then as well all of these rooms are either absent of technology or have technology that is more legacy based.

We know that the significant underlying shift is to more cloud-enabled collaboration solutions, Zoom, RingCentral, Teams, as an example. And so you have a refresh opportunity, as well as just a growing installed base opportunity, which makes this a really attractive space for us.

Aaron Rakers*Analyst, Wells Fargo Securities LLC*

Q

Okay. Thank you.

Operator: The next question comes from Sidney Ho from Deutsche Bank. Please go ahead.

Sidney Ho*Analyst, Deutsche Bank Securities, Inc.*

Q

Thanks and congrats on the deal. So, my question is on the revenue side. Assuming the \$500 million revenue synergy is a three-year cumulative number, how are you thinking about linearity of those synergies? Would that be front-end loaded because of the improvement in supply chain or more back-end-loaded because it takes time for some of these things to cross-sell? And maybe on the other side, if I think about revenue dis-synergies, is there much overlap between the two companies in terms of product portfolio that we should consider? I assume there's not, but just want to confirm.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

Yeah. So, let me restart. So, there is no overlap between the two portfolios, so we don't see any revenue dis-synergies happening because of the combination. And at this point, the revenue plan is linear. So, a 15% CAGR very similar year-over-year. And as we always say, we can do better, we will do better. But the model and the way we have built the plan is linear.

Sidney Ho

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. That's helpful. Maybe my follow-up questions on the balance sheet side or capital return side. I understand you confirmed to buy back at least \$4 billion of stock this year. But does that change your ability for capital returns beyond this year? In other words, should we expect a period that you prioritize debt repayment over capital returns? Thanks.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

A

No. As Marie confirmed during the prepared remarks that we maintain our current – our previous commitment of returning at least 100% of free cash flow, unless opportunities with a better return show up. So, no changes in our approach and our strategy to return capital to shareholders.

Sidney Ho

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Our next question comes from Wamsi Mohan from Bank of America. Please go ahead.

Wamsi Mohan

Analyst, BofA Securities, Inc.

Q

Yes, thank you. If you look at the last few years of Poly results, it seems very surprising that they really did not see a growth benefit from the hybrid work that, obviously, everyone has experienced. Can you give us some context of why their revenue has been relatively flat over the last few years?

I understand supply constraints are likely part of it. And it sounded from Marie's comments that the backlog was especially elevated in the past couple of quarters. But in 2020/2021, as you guys have experienced and several other companies that are exposed to the space, there was significant growth. I mean, 60%, 70%, 80% growth for some companies that could be considered peers. So, just wondering why is it beyond supply chain that maybe they have not experienced, any color that would be helpful.

Enrique Lores*President, Chief Executive Officer & Director, HP, Inc.*

A

Sure. I think at the beginning of the period, they were still impacted by the marriage between Plantronics and Polycom, and some of these – and these created some short-term impacts on the revenue. And then, as they were starting to grow, they were impacted by supply chain challenges.

So, the combination of both has driven the impact that you were saying. But I think what is important for us going forward is, first, as we have shared, this is a growing market. We really see the value in the combination, both of the portfolio and the leverage that we can drive from a go-to-market perspective, and how with our scale we can help on the supply chain constraints. And this is why going forward, we see this 15% CAGR in revenue growth that we really think will help us to continue to grow in these categories.

Wamsi Mohan*Analyst, BofA Securities, Inc.*

Q

Okay. That's helpful, Enrique. Thanks for the color there. And then, if I could follow-up, I think you said that there was basically no overlap in the portfolios, but you guys have assets like Halo videoconferencing. Are there plans to sort of not really invest in those assets on a go forward basis? Or is it just that you think that it's a different subset of customers where those applications are applicable too versus the Poly assets? Thank you.

Enrique Lores*President, Chief Executive Officer & Director, HP, Inc.*

A

Yeah. We don't have any more the Halo video business. It was discontinued maybe 10 – about 10 years ago. We launched a few months ago HP Presence, which is a set of technologies that we are using both across all our portfolio. And, in fact, we will now integrate those technologies across the full portfolio, including Poly. So, clearly no revenue dis-synergies in the business, Wamsi.

Operator: The next question comes from Kyle McNealy from Jefferies. Please go ahead.

Kyle McNealy*Analyst, Jefferies LLC*

Q

Hi. Thanks very much for the question. I guess, congrats on the deal as well. I'm wondering if you can give us a sense for the current hardware versus software mix in Poly's business, whether you expect that to materially change under HP ownership.

And secondly, how do you view the strength of Poly's position relative to the larger trends in the conferencing technology market with cloud conferencing platforms and the TDM to Voice over IP transition that we may be on the back end of now? Thanks very much.

Enrique Lores*President, Chief Executive Officer & Director, HP, Inc.*

A

Yeah. Alex, do you want to take that one?

Alex Cho*President-Personal Systems, HP, Inc.*

A

Yeah. Let me first start with the second part is, what we really like and very excited about with Poly is they've got such strong assets in audio and video. And as well if you look at conferencing rooms, cloud-based systems, which is a big trend, they've made nice progress in innovation and growing their footprint around the world.

So, we're very excited about that. We think that is the mega onetime trend that is happening; shift to hybrid, cloud-based solutions, compute-enabled meeting spaces, that's where coming together, we think, will be very strong.

And to answer your first one that, you know that Poly does have part of their business that's related to services. In fact, this is why we think this is such a great enabler of our peripherals ambition, which is growing, as well as our workforce solutions, because as a solution selling into the commercial environment, this gives us great opportunity to expand that.

Enrique Lores

President, Chief Executive Officer & Director, HP, Inc.

So, really, thank you, everybody, for joining the call today. I think I would like to close with three key messages that we see supporting this acquisition. First of all is that we see hybrid work as a tremendous opportunity. And this deal is going to help us to accelerate our leadership in this space.

Second is the combination of the assets that HP brings and Poly brings is really going to help us to accelerate our growth in two of our key growth areas. And finally, from a financial perspective, this is a very attractive opportunity with very significant returns to our shareholders.

So again, thank you for joining the call with such a short notice and wish a great week to everybody. Thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.