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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Fourth Quarter 2021 HP Inc. Earnings Conference Call. My name is Gary, and I’ll be your conference moderator for today’s call. [Operator Instructions] We will be facilitating a question-and-answer session toward 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.

Good afternoon, everyone, and welcome to HP’s Fourth Quarter 2021 Earnings Conference Call. With me today are Enrique Lores, HP’s President and Chief Executive Officer; and Marie Myers, HP’s Chief Financial Officer. Before handing the call over to Enrique, let me remind you that this call is being webcast. A replay of this webcast will be made available on our website shortly after the call for approximately one year.

We posted the earnings release and the accompanying slide presentation on our Investor Relation webpage at investor.hp.com. As always, elements of this presentation are forward-looking and are based on our best view of the world and our businesses as we see them today. For more detailed information, please see disclaimers in the earnings materials relating to forward-looking statements that involve risk, uncertainties, and assumptions. For a discussion of some of these risk, uncertainties, and assumptions, please refer to HP’s SEC reports, including our
most recent Form 10-K. HP assumes no obligation and does not intend to update any such forward-looking statements.

We also note that the financial information discussed on this call reflects estimates based on information available now and could differ materially from the amounts ultimately reported in HP’s Form 10-K for the fiscal year ended October 31, 2021 and HP’s other SEC filings.

During this webcast, unless otherwise specifically noted, all comparisons are year-over-year comparisons with the corresponding year-ago period. For financial information that has been expressed on a non-GAAP basis, we’ve included reconciliations to the comparable GAAP information. Please refer to the tables and slide presentation accompanying today’s earning release for those reconciliations.

With that, I’d now like to turn the call over to Enrique.

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

Thanks, Orit, and thank you all for joining today’s call. At our Securities Analyst Meeting last month, we shared our plans to continue building a stronger HP, one that delivers sustained revenue, operating profit, EPS, and free cash flow growth. This quarter’s results reflect our continued momentum against this plan, and they give us great confidence in our future. Let me talk through the details.

In Q4, revenue grew 9% to $16.7 billion. Non-GAAP EPS grew 52% to $0.94, and we generated more than $900 million of free cash flow, while returning $2 billion to shareholders through share repurchases and dividends.

Our Q4 results had a great finish to an exceptional year. For the full year, we grew revenue 12% to $63.5 billion and generated $1.7 billion of incremental non-GAAP operating profit. Non-GAAP EPS grew 66%. This means that we exceeded our value creation plan target for non-GAAP operating profit and EPS a full year ahead of plan, and we returned a record $7.2 billion to shareholders while continuing to invest in strategic growth opportunities across the business.

Our Q4 and full year performance shows our company on its front foot and hitting its stride. Long-term secular trends, such as hybrid, play to our competitive strength. Our leadership across our market and the innovation agenda we are driving are enabling us to turn these trends into tailwinds. We are making organic and inorganic investments to drive profitable growth, and we are accelerating our transformation, building new digital capabilities, while also reducing structural costs and driving efficiencies. The progress we are making against our priorities is creating a more growth-oriented portfolio.

At our Analyst Day, I shared that we expect our five key growth areas to grow double-digits and generate over $10 billion in revenue in fiscal 2022. These businesses collectively grew 12% this quarter. This includes more than 30% growth for our Instant Ink business, as well as more than 20% growth for our industrial graphics portfolio. We see our key growth areas becoming a bigger part of overall revenue and profit mix moving forward.

We are driving this growth even as we continue to navigate a complex and dynamic operational environment that includes robust demand and persistent supply constraints. The actions we have been taking to mitigate industry-wide headwinds are paying off. There is no quick fix, but we are strengthening our operational execution and making continued progress quarter-by-quarter.
And I just want to say how proud I am of the way our teams are stepping up. It has not been easy, but the challenges we have faced have not deterred us from driving our business forward. And the fact that we delivered double-digit revenue and profit growth for the year gives us confidence as we enter 2022.

Let me now talk about the strength we see across each of our business units. In Personal Systems, there continues to be very strong demand. PS revenue and operating profit each grew double digits in Q4, and our disciplined execution and pricing strategy allowed us to effectively manage cost and components headwinds. A big part of our success is the improved mix we are driving given our leadership in the Commercial PC market. As more offices reopen, we led a shift toward Windows-based Commercial products, where we saw the strongest demand and highest profitability.

We continue to see a significantly elevated order backlog. As I shared last month, we expect component shortages, particularly in IC, to persist into at least the first half of 2022. The operational actions we outlined in our Q3 call are generating positive results. We continue to increase our direct engagement with Tier 2 and Tier 3 suppliers. We have expanded long-term agreements to secure capacity, and our digital transformation initiatives are enabling greater real-time visibility to optimize our speed, agility, and mix. This work remains a daily priority, and we expect our trajectory to continue to improve.

We are also creating important innovation as we design for all things hybrid. This includes a new line-up of Windows 11 devices that enable premium computing experiences for work and home. We are also expanding into valuable adjacencies. Last quarter, we introduced HP Presence, the world's most advanced video conferencing system. This is a large opportunity that will continue to grow as our digital and physical worlds converge. Seven out of ten companies are already investing in technologies that improve hybrid work experience for their employees.

HP Presence combines our hardware, software, imaging, and operational capabilities to create a more immersive experience so that distributed teams can truly feel they are in the same room, even if they are not. You will see us continuing to innovate and expand our presence in the growing hybrid collaboration space.

We also delivered another quarter of double-digit Device as a Service revenue growth. This included the launch of new digital services to help Commercial customers simplify the complexity of hybrid IT environment. And following the close of our Teradici acquisition, we launched a lineup of new Z by HP, Teradici and NVIDIA Omniverse subscription offers to enable high-performance remote collaboration.

Turning to Print (sic) [Printing], we grew revenue 1% in the quarter. This was primarily driven by our disciplined pricing strategy, as well as our continued growth in services and subscriptions, which offset expected volume decline, driven by limited supply. Like others in the industry, we continue to operate in a supply-constrained environment driven by COVID-related disruptions and broader logistics issues. Against this backdrop, demand for our print hardware and supplies remained strong.

The fact is we had more hardware order that we could fulfill in the quarter. And as we said last month, we expect this to impact Printing growth in fiscal year 2022. But this is not stopping us from advancing our strategic priorities. We continued to grow our HP+ portfolio globally, including a rollout to our ENVY Inspire 7000 Series that is designed for families working, learning, and creating new memories from home. Importantly, it is built with sustainability in mind, and made from over 45% recycled plastic content.

We're also growing our digital services to enable hybrid office printing. A great example is this quarter's launch of HP Managed Print Flex, a new cloud-first MPS subscription plan for hybrid work environment. In Q4, we drove
double-digit growth of MPS revenue and total contract value, and this supports our workforce solution momentum. We are increasingly integrating our offerings across Printing and Personal Systems to meet new customers' needs and unlock new growth opportunities. Our recently launched HP Work from Home service is a great example of how we are leveraging our diverse portfolio to win in the hybrid office.

As I mentioned earlier, we’re also driving industrial graphics and 3D printing growth. In industrial graphics, we drove double-digit revenue growth in the quarter and have built a healthy backlog of industrial presence. This continues a positive recovery trend from prior quarters. We also continued to see a mix shift towards more productive industrial presence with significant growth in labels and packaging. And in 3D, our focus on high-value end-to-end applications is paving the way for entirely new growth businesses. Our molded fiber, footwear, and orthotics initiatives are on track.

Our progress against our strategic priorities is also driving strong cash flow, and we continue to be disciplined stewards of capital. We have a robust returns-based approach that we are applying to every aspect of our capital allocation. We will continue to invest in areas where we see growth opportunities while continuing to return capital to our shareholders. We believe our shares remain undervalued, and we are committed to aggressive repurchase levels of at least $4 billion in fiscal year 2022.

We also expect M&A will continue to play an important role. Specifically, we plan to pursue deals that accelerate our strategies and drive profitable growth, and we are making ongoing progress against our Sustainable Impact agenda. ESG is a driver of long-term value creation for all stakeholders, and we continue to pursue an ambitious agenda. The latest example is our expanded partnership with World Wildlife Fund. We are working to restore, protect, and improve the management of nearly 1 million acres of forest landscape. We support our focus on making every page printed forest positive.

To sum up, our portfolio is innovative and resilient. Our strategy is driving sustained revenue, operating profit, EPS, and free cash flow growth. We’re returning highly attractive levels of capital to shareholders, and we are confident in the fiscal year 2022 guidance that we shared at our Analyst Day. We are entering the New Year from a position of great strength, and I look forward to continuing to share our progress.

Let me now turn the call over to Marie who will take you through the details of the quarter and our fiscal Q1 outlook. Marie, over to you.

Marie E Myers  
Chief Financial Officer, HP, Inc.

Thanks, Enrique, and hello, everyone. It's good to be back together and it was great to connect with so many of you following our Analyst Day. I want to start by building on something Enrique said a moment ago. Q4 was a strong finish to a very strong year. It builds on our proven track record of meeting or exceeding the goals we set, and it underscores our confidence in our FY 2022 and long-term financial outlook.

Let me begin by providing some additional color on our results, starting with the full year. Revenue was $63.5 billion, up 12%. Non-GAAP operating profit was $5.8 billion, up 42%. We grew non-GAAP EPS even faster, up 66% to $3.79. This continues our trend of growing non-GAAP EPS every year since separation. Our $4.2 billion of free cash flow was consistent with our full year guidance, and adjusting for the net Oracle litigation proceeds, and we returned a record $7.2 billion to shareholders. That's 172% of free cash flow.

What's especially important to note is how well-balanced our performance is. We are growing our top and bottom line. We are returning capital to shareholders and investing in the business. We are accelerating new growth
businesses and driving efficiencies. This reflects a company geared towards both short and long-term value creation as we enter a new period of growth for HP. This is supported by our Q4 numbers.

Net revenue was $16.7 billion in the quarter, up 9% nominally and 7% in constant currency. Regionally, in constant currency, Americas declined 4%, EMEA increased 15%, and APJ increased 18%. As Enrique mentioned, supply chain constraints continued to impact both Printing and Personal Systems revenues, and this was particularly impactful to our print hardware results this quarter. That said, demand remains strong as hybrid work creates sustained tailwinds.

Gross margin was 19.6% in the quarter, up 2 points year-on-year. The increase was primarily driven by continued favorable pricing, including currency, partially offset by higher costs. Non-GAAP operating expenses were $1.9 billion or 11.5% of revenue. The increase in operating expenses was primarily driven by increased investments in go-to-market and innovation.

Non-GAAP operating profit was $1.3 billion, up 28%, and non-GAAP net OI&E expense was $64 million for the quarter. Non-GAAP diluted net earnings per share increased $0.32 or 52% to $0.94 with a diluted share count of approximately 1.1 billion shares. Non-GAAP diluted net earnings per share excludes Oracle litigation gains, defined benefit plan settlement gains, non-operating retirement-related credits, partially offset by restructuring and other charges, amortization of intangibles, acquisition-related charges, other tax adjustments. As a result, Q4 GAAP diluted net earnings per share was $2.71.

Now, let's turn to segment performance. In Q4, Personal Systems revenue was $11.8 billion, up 13% year-on-year. Total units were down 9% given the expected supply chain challenges and lower Chrome mix. The fact we still grew revenue double digits in this environment reflected the strength of demand and positive impact of our mix shift towards mainstream and premium Commercial.

Drilling into the details, Consumer revenue was down 3% and Commercial was up 25%. By product category, revenue was up 13% for Notebooks, 11% for Desktops and 39% for Workstations. We also continued to drive double-digit growth across peripherals and services.

Personal Systems delivered $764 million in operating profit, with operating margins of 6.5%. Our margin improved 1.4 points primarily due to continued favorable pricing, product mix, and currency, partially offset by higher costs including commodity costs and investments in innovation and go-to-market.

In Printing, our results reflected continued focus on execution and the strength of our portfolio as we navigated the supply chain environment. Q4 total Printing revenue was $4.9 billion, up 1%, driven by favorable pricing in hardware and growth in services, partially offset by a decline in supplies. Total hardware units declined 26% due to consumer replenishment last year in Q4 and increased manufacturing and component constraints. We expect these print hardware constraints to extend at least into the first half of 2022.

By customer segment, Consumer revenue was down 6%, with units down 28%. Commercial revenue grew 19%, with units down 12%. Consumer demand remains solid. However, revenue across both home and office was constrained by the current supply and factory environment. The commercial recovery showed further progress with double-digit hardware revenue growth with triple-digit increases in industrial printing hardware. We expect to see a continued gradual and uneven recovery in Commercial extending into FY 2022.

Supplies revenue was $3.1 billion, declining 2% year-on-year, driven primarily by prior-year channel inventory replenishment. We also saw steady normalization of ink and toner mix, partially offset by favorable pricing. We
saw continued momentum in our contractual business. As we discussed at our Analyst Day, this is a key part of our broader services strategy. Instant Ink delivered double-digit increases in both cumulative subscriber growth and revenue. We also drove growth in Managed Print Services revenue and total contract value, with strength in both renewals and new TCV bookings.

Printing operating profit increased $117 million to $830 million and operating margins were 17%. Operating margin grew 2.2 points, driven primarily by favorable pricing and improved performance in industrial, including graphics and 3D, partially offset by unfavorable mix and higher costs including commodity costs and investments in innovation and go-to-market.

Now, let me turn to our transformation efforts. As we completed the second year of our cost savings program, we have now delivered more than 80% of our $1.2 billion gross run rate structural cost reduction plan, and we continue to look at new cost savings opportunities. Transformation is not only about cost savings, but about also creating new capabilities and long-term value creation.

One example I'd like to highlight is our ongoing digital transformation. By leveraging our new digital platforms, we are enhancing our capabilities and transforming the way we operate to deliver new solutions to our customers. With this capability, we recently launched Wolf Pro Security, a new subscription service that enables customers to digitally manage their software on an annual subscription basis. The structural cost savings from our transformation efforts are enabling us to invest in these types of strategic growth drivers, and we see many more opportunities like this to drive business enablement through additional software, services and solutions offerings.

Let me now move to cash flow and capital allocation. Q4 cash flow from operations was $2.8 billion and free cash flow was $0.9 billion after the additional adjustment for the net Oracle litigation proceeds of $1.8 billion. The cash conversion cycle was a minus 25 days in the quarter. This deteriorated four days sequentially as lower days payable outstanding and higher day sales outstanding was only partially offset by the decrease in days of inventory.

For the quarter, we returned a total of $2 billion to shareholders, which represented 210% of free cash flow. This included $1.75 billion in share repurchases and $219 million in cash dividends. For FY 2021, we returned a record $7.2 billion to shareholders or 172% of free cash flow.

Looking ahead to FY 2022, we expect to continue aggressively buying back shares at elevated levels of at least $4 billion. Our share repurchase program, combined with our recently increased annual dividend of $1 per share, has us on track to exceed our $16 billion return of capital target set in our value creation plan.

Looking forward to Q1 and FY 2022, we continue to navigate supply availability, logistics constraints, pricing dynamics, and the pace of the economic recovery. In particular, keep the following in mind related to our Q1 and overall fiscal 2022 financial outlook. For Personal Systems, we continue to see strong demand for our PCs, particularly in Commercial, as well as favorable pricing. We expect solid PS revenue growth to continue into fiscal 2022, with a shift to higher-growth categories including commercial, premium and peripherals. We expect PS margins to be toward the high end of our 5% to 7% long-term range.

In Printing, we expect solid demand in Consumer, a continued normalization in mix as Commercial gradually improves through 2022 and disciplined cost management. We expect Printing margins to be towards the high end of our 16% to 18% long-term range. For Personal Systems we expect the component shortages as well as manufacturing ports and transit disruptions will continue to constrain revenue due to the ongoing pandemic in
many parts of the world. In Printing, we expect similar, but more acute challenges particularly with regard to factory disruptions and component shortages.

We expect these challenges across PS and Printing to persist at least through the first half of 2022. Furthermore, normal sequential seasonality doesn't apply for FY 2022, and we expect our revenue performance to be more linear by quarter, particularly driven by PS. In addition, we expect a slight headwind year-on-year, approximately $20 million per quarter from corporate investments and other.

Taking these considerations into account, we are providing the following outlook. We expect first quarter non-GAAP diluted net earnings per share to be in the range of $0.99 to $1.05, and first quarter GAAP diluted net earnings per share to be in the range of $0.92 to $0.98. We expect full year non-GAAP diluted net earnings per share to be in the range of $4.07 to $4.27, and FY 2022 GAAP diluted net earnings per share to be in the range of $3.86 to $4.06. For FY 2022, we expect free cash flow to be at least $4.5 billion.

Overall, I feel very good about our performance and our outlook. I am confident in our ability to deliver consistent long-term sustainable growth. And we look forward to taking your questions, so let me hand it back to the operator.

**QUESTION AND ANSWER SECTION**

**Operator:** Thank you. And we will now begin the question-and-answer session. [Operator Instructions] The first question is from Amit Daryanani with Evercore. Please go ahead.

**Amit Daryanani**  
**Analyst, Evercore Group LLC**

Thanks a lot. Good afternoon. Congrats on a nice quarter over here. I guess my first question really is on the Personal Systems side, a very impressive, I think, reversal on the growth profile versus last quarter ago. It looks like it's heavily driven by ASPs. If my math is right, maybe ASPs are up close to 20%. So, I'd love to understand, when I look at the ASP uplift, how much of that is just mix, because you perhaps had less Chromebooks versus just apples-to-apples price increases? And then how should we think about the durability of that ASP increase as you go forward into the next fiscal year?

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

Hi, Amit. Thank you for the question. Let me start, and then Marie will provide more detail. So, first of all, as you said, we are very pleased with the performance of the PC business this quarter. It is really a consequence of the strong demand that we continue to see, both across Consumer, but especially in Commercial, and the way we have been managing both mix and pricing, as you were saying.

We have been very effectively managing both, driving the component that we have towards the categories where we saw the highest value for the company, which in general are the Commercial categories and the high-end of the Consumer side, and this has really been driving the performance that you saw.

And now Marie will comment on pricing.
Sure. And good afternoon, Amit. So, first of all, just to give you some context around ASPs, they're actually up 24% year-on-year, and 17% Q-on-Q. And what’s driving that is really a combination of favorable pricing including some currency, but as you said, there's that favorable mix into higher Commercial, as well as even a mix shift inside Commercial to both premium and mainstream. So, we've got less low-end and that favorable mix shift within Consumer.

In terms of year-on-year, Consumer is up 11%, driven predominantly by pricing and Commercial is up 31.7%, which is a combination of both mix and pricing. And as we've said earlier and I think in our Security Analyst Meeting, we do expect to see some of that favorable mix shift continue into the following year as well.

Perfect. And if I could just follow-up. Enrique, I think everyone is used to thinking as supply revenues go down, Printing margins will be under pressure, and certainly I think what you're seeing right now, what you're guiding for, more importantly in fiscal 2022, would say even if supplies start to decline, margins should hold up in that 17%, 18% kind of range. So, I'd love to kind of get your perspective. What are the two or three big things or vectors that investors should think about that is enabling Printing margins to expand, even as supplies revenues might be a little bit more down next year?

Thank you. This is really consistent with the strategy that we started to execute two years ago when we are driving the change of profitability from supplies more into hardware. And as we shared during Analyst meeting, we have been making very good progress driving that strategy. We have increased the mix of products that include supplies when customers buy them, what we call profit upfront products. We have also increased the percentage of end-to-end systems, what we call now HP+, and we have also been driving the transition towards subscription and service-oriented businesses that is also contributing very positively from a profitability perspective. So, what you see happening is what we said two years ago we were going to drive. We have been making good progress, and this makes us confident in the guide that we provided for fiscal year 2022 in our Analyst Day and about the guide that we have provided today for Q1.

[indiscernible] (33:14) also, just to keep in mind, and I'm sure you know this, that we're lapping some tough compares so what we're really focused on is driving incremental OP dollars over time and driving more OP dollars outside of supply, and that's exactly what Enrique said, to really shifting the business model.

Operator: The next question is from Ananda Baruah with Loop Capital. Please go ahead.

Hey. Good afternoon, guys. Thanks for taking the question, and congrats on the strong results. Yeah, just two if I could. Enrique, any new anecdotes you guys clearly continue to sound as net positive on-demand as you did five weeks ago at the Analyst Day? But any new concept over the last five weeks with regards to what you're seeing,
customer conversation, conversion? Anything like that you picked up in the last five weeks would be super helpful. And then I have a quick follow-up.

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

What we have seen is, I'm sorry to disappoint you, is very consistent to what we discussed in our Analyst Day. We continue to see strong demand, especially from Commercial customers, as we shared there as companies are reopening offices, getting employees back to work, they are investing to improve their experiences, and therefore they're investing in PCs and in Notebooks and Desktops. We also have seen strong consumer demand as the holiday season comes. We are seeing demand behaving as per plan, so no deviation from what we discussed a few weeks ago.

Marie E Myers
Chief Financial Officer, HP, Inc.

I'd also add that [indiscernible] (34:57)...

Ananda Baruah
Analyst, Loop Capital Markets LLC

Okay. Great. And then...

Marie E Myers
Chief Financial Officer, HP, Inc.

...with backlog too, so our backlog still remains elevated.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Yeah. Thanks, Marie, for that. And then I guess the follow-up is, on the Commercial side, any distinction to make what you're seeing between true enterprise and small-medium business? Small-medium business has been a good chunk of your business for a while. And so, any distinction to make there between the tenor of demand between those two? Thanks.

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

I wouldn't make any big distinction. We see growth across the board both for large enterprises and for SMBs. We have a very strong business in both areas, and we see demand in the two customer segments, so no major deviations [ph] around that (35:42). Thank you.

Operator: The next question is from Toni Sacconaghi with Bernstein. Please go ahead.

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

Yes. Thank you for taking the question. I was wondering if you could maybe just provide a little more detail on your backlog. I think last quarter, you said that your backlog in PCs was about 13 weeks. Can you provide an update on that? And you mentioned that print hardware was probably the most supply-constrained, so perhaps you can dimension the backlog and how much it may have changed in the quarter. And then I have a follow-up, please.
Sure. So, in terms of PC backlog, it's remained at a very elevated level, Toni, very similar to where we were a quarter ago. So, no major changes. It continues to be similar to what you saw despite of the strong business that we have created this quarter. And then in terms of Printing, you are correct. Print hardware is where we have seen the major supply chain limitations, mostly because of the factory lockdowns in many Southeast Asia countries, which is what we shared during the last week. So, no news here. And backlog is also elevated, but it is lower than what we have on PCs.

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

Okay. And then just to follow up, you talked about the strength in pricing. Prices were up 17% sequentially in PCs, yet your operating margins in PCs were the lowest they were all year. I know there was some incremental supply chain costs. But that kind of price leverage, why did you not see greater operating profit leverage? And then somewhat related to that, I think, Marie, you basically said we should sort of ignore traditional seasonality and kind of think of flattish growth throughout the year, but if you're actually going to make any progress in drawing down your backlog and demand remains strong, your seasonality actually should be above normal seasonality, because demands continuing at the same rate, but you're getting a tailwind from backlog ultimately if you're able to draw that down. So, maybe you could just help provide some color on both of those things, potential inconsistencies, and set me straight. Thank you.

Marie E Myers
Chief Financial Officer, HP, Inc.

Yeah. No worries, Toni, and good afternoon. So, why don't I talk first about seasonality. And I'd say that, first up, we've seen that strength in the quarter in PS, and we do expect that to continue into 2022. So, as a result, we do expect revenue linearity in the year to be more linear across the quarter, and that's more so, Toni, than what we've seen in the last few years. So, our sequential revenue growth in 2022 is therefore going to be more consistent quarter-to-quarter. And I'd just reiterate, like I did, I think, at the SAM meeting that we don't expect normal seasonality.

And then with respect to the PS operating margins in the quarter, PS was actually – the rate was actually down slightly quarter-on-quarter and that was just really due to, you might recall, the material change in estimate that we had back in Q3. And also you saw just the strength of the business that we actually had. So, we did take the opportunity to make some one-time investments that we don't expect that they are probably going to repeat in 2022.

Operator: The next question is from Shannon Cross with Cross Research. Please go ahead.

Shannon Cross
Analyst, Cross Research

Thank you very much. Enrique, could you talk a bit about your peripherals initiative and what we should look for in terms of proof points, and what you've done internally to try to improve that business so that it can contribute in fiscal 2022? And then I have a follow-up, thank you.

Enrique Lores
President, Chief Executive Officer & Director, HP, Inc.
Sure. Thank you, Shannon. So, as we said in our Analyst Day, peripherals is one of the five growth areas of the company, and we think that really is going to be contributing to the sustained growth that we expect to see in Personal Systems. We have done a lot of changes internally to manage the business better. In the past, if you remember, we were calling it Attach; and when you call a business Attach, you don't put their best engineers, you don't put the investment that the business requires, and you don't have your organizational focus, and we have changed all that.

We have a dedicated organization to peripherals, we have put some of the strongest leaders in the company to drive that initiative, we are increasing internal investment, we are moving some of our best engineers to the group, and we have also invested in inorganic – in acquisitions as the acquisition we did with HyperX to reinforce our position in some specific areas like in the case of HyperX in peripherals for gaming. What you will see us doing in the future is to continue to invest in this space. We see we have a great opportunity to continue to grow going forward, and we will be providing regular updates of the progress that we're going to see in that category going forward. And just to close, this quarter we had double-digit growth in this category, so we are really pleased with the growth in peripherals.

Shannon Cross

Okay. Thank you. And then I was wondering if you could give us an update on 3D printing. What kind of contribution you're seeing? I know you're not going to give us specific numbers, but where that's – how that's going coming out of the pandemic, and where you're seeing strong demand. Thank you.

Enrique Lores

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

Thank you. So, let me cover 3D printing from two angles. First is after the pandemic we have seen very strong growth in what I would call the traditional 3D printing, basically selling printer, selling supplies, and selling services around those. Very strong growth. We are seeing really a pickup of demand. But also we shared, during our Investor Day, that we have complemented that part of the business with the investment in three specific end-to-end, we call it, applications or businesses where we think we have the opportunity of capturing more value because we are not just selling the printers, we are designing the parts, and in some cases we are also selling the parts to the consumers or to the end users. And we shared in our Investor Day that we were working on molded fiber and sustainable packaging on orthotic and on footwear, three areas where – of businesses in the $8 billion to $12 billion where we can really drive a strong disruption because we think 3D printing is really going to help us to grow and to transform those industries. So, great progress. We are on track. This is what we discussed a few weeks ago. And during 2022, we will continue to provide update on where we see this business going.

Operator: The next question is from Katy Huberty with Morgan Stanley. Please go ahead.

Katy L. Huberty

Analyst, Morgan Stanley & Co. LLC

Yes, thank you. Good afternoon. There's a pretty wide dispersion in revenue growth across the regions this quarter, with Americas down 4% and double-digit positive growth in EMEA and Asia Pacific. What explains that dispersion? Some of it is year-on-year comps, but that's not nearly all of it. Are prices passing through in different rates across the regions? Is there differences in how the distribution channels are rebuilding inventory coming out of the downturn? Just any context around the pretty wide dispersion in geographic route. And then I have a follow-up.
**Enrique Lores**  
*President, Chief Executive Officer & Director, HP, Inc.*

I think the dispersion is really driven by both how we've been prioritizing and where we have seen growth. If you think about a year ago we saw very strong growth on the Consumer business in North America; and as we have shared, we are now driving our business model towards higher premium categories, mostly in Commercial, and therefore this has implications on the year-on-year compares. This is really what is driving the delta there, Katy.

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**Katy L. Huberty**  
*Analyst, Morgan Stanley & Co. LLC*

Okay. And then as a follow-up maybe for Marie, inventory was a use of cash over the past year. It did come down in the fourth quarter. Should we assume that your balance sheet inventory gradually normalizes as you move through fiscal 2022?

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

Yeah, no, we expect basically for our inventory levels to remain somewhat elevated while we're through this supply chain constrained environment; however, we do expect to moderate our components depending on the supply and the demand that we see around the components. But certainly, as we look forward into the first half of 2022, we still expect to see those levels somewhat elevated.

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

What you saw, Katy, like if we look at components where availability has improved, [ph] we don't (44:51) need to maintain those levels of inventory and therefore we are correcting that. But as Marie was saying, since we expect to continue to be in a supply-constrained environment at least through the first half, inventory will stay at high levels.

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**Operator:** The next question is from Samik Chatterjee with JPMorgan. Please go ahead.

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**Angela Jin**  
*Analyst, JPMorgan Securities LLC*

Hi, this is Angela Jin on for Samik Chatterjee. Just had one question, wanted to dig in a little into the margin here. I think someone mentioned earlier that you had 17% price increase in PCs. And so just thinking about moving forward, assuming you have sort of favorable pricing into fiscal year 2022 and that the supply situation at least starts to – seems to be stabilizing or maybe easing a bit, should we expect to see margin sort of remain at that elevated level even beyond your first quarter guidance?

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

Yeah, no, sure, and good afternoon. So we are very much on track towards the high end of our long-term SAM range, which we gave at our Analyst Day for PS, so we continue to see that strong demand for our PCs, particularly in Commercial, and we expect to see that favorable pricing as well, and that's how we think about our guide for Q1. I would just add, I think I mentioned it with Toni, that we were down slightly Q-on-Q, and that was really driven by the material change in estimate we had last quarter. But going forward, we absolutely expect our PS margins to continue to be at the high-end of our long-term range.
And just a brief reminder, we increased our long-term range a few weeks ago, so what we are saying is we are going to stay at the high end of the new ranges that we just provided.

Great. Thank you.

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

Hi. Thanks for taking the question. I got two questions. First one is you mentioned your backlog is staying at elevated level. Now that you have another quarter observing these dynamics, can you talk about how you monitor to make sure the orders are real, and how confident are you that once supply constraints start to ease, you don't see a sharp decline in – or a sharp increase in cancellation rate or decline in this backlog? And then I have follow-up.

Yes, thank you. So as we have shared in the past, this is really something that we pay a lot of attention to, and we constantly monitor the orders that we get, the quality of the orders, and what cancellations are happening. And as we have shared before, their percentage of cancellations is very, very slow – is very, very small, so we are not seeing any cancellations.

Also, as we look at the composition of the backlog, a majority of the backlog now is coming from Commercial customers, given that this is where we continue to see the strongest demand. Usually, there is an end user, and in many cases, there is an end user associated with that backlog. So it means the probabilities of double booking or cancellations even lower. But we – rest assured this is something we monitor constantly, and we don't see any cancellations.

Now, of course, our goal is to – over time to reduce the amount of backlog that we have, and we expect that as supply will get normalized during the next quarter, we will be reducing the amount of backlog that we have.

Great. That's helpful. Maybe my follow-up question is on the free cash flow for fiscal 2022 of more than $4.5 billion. How should we think about the profile of that going to look like as we go through the year? Typically you see the lowest free cash flow in fiscal second quarter and highest in fiscal third quarter, but this year could be different. But any other factors we should be thinking about? And kind of related to that, how may that change the amount of share buyback as we go through the year? Thanks.
Yeah. So maybe I'll hit up cash flow and then we'll go to the buyback. So, first of all, we guide cash flow on an annual basis, and as we mentioned at SAM, we're confident in our guide of at least $4.5 billion. A couple things to bear in mind, obviously cash flows are driven by revenue and operating profit growth, and then secondly, I think we did comment that we did expect to see some favorable working capital as we start to see those inventory levels potentially moderate in the second half. So that's how we're thinking about it, we've built that all into our guide basically in terms of free cash flow.

With respect to our buybacks, we remain committed to repurchase at least $4 billion of our shares, and as you probably recently saw in our analyst reports, analyst meeting as well, we're expecting to pay out a dividend of $1 per share. So I think really a meaningful plan there with respect to our buyback, starting return of capital to our shareholders.

Operator: The next question is from David Vogt with UBS. Please go ahead.

David Vogt
Analyst, UBS Securities LLC

Great. Thank you for taking my question. I just have one question, it's more of a financial philosophical question, and trying to think through your long-term financial framework that sort of underpins the high-single-digit EPS growth that you laid out at SAM. And if I just take sort of your framework at face value, as operating profit grows and your dividend grows along with op profit and/or earnings, what are sort of the parameters that you're using to think about the buyback in terms of how much you want to use?

Because as the stock appreciates and let's say the multiple expands and you're no longer "undervalued" or maybe even less valued, I would imagine that you might ratchet down or maybe pull back on the buyback, and that seems to be a pretty important part of the longer term EPS growth that you'd laid out at SAM. So just want to get a better understanding how you're thinking about it over the longer term. Thanks.

Marie E Myers
Chief Financial Officer, HP, Inc.

Yeah. Maybe I'll just start out by commenting firstly that our FY 2022 guidance is a combination of both operational flow-through and the results of share buyback. Now, addressing your question specifically about how we're thinking about your philosophical question around the buybacks, look, I would just say that we're absolutely committed to the capital allocation strategy that we've outlined at SAM. And those ingredients, nothing's changed there. And a big part of that is our return of capital to shareholders.

So, we're on track to continue to buy back shares at elevated levels of at least $4 billion, and in fact, I think we're going to surpass what we said we'd do back in our value plan of at least $16 billion. So that's how we're thinking about it, and our commitment really hasn't changed.

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

And maybe to complement a little what Marie was saying, what we have committed is that we will be returning, and I'm talking now about the long-term, 100% of free cash flow, unless other better opportunities arise, and we have also committed to increase our leverage ratio to 2 points, and we will be doing this over time. So both will be sources of cash that we will be using to return capital to shareholders, or potentially to M&A, if M&A will bring better returns.
Great. Maybe just as a quick follow-up, Enrique, so does that imply that the dividend effectively is sort of marching in lockstep with sort of earnings growth, and then the flexible use of cash flow between M&A will be – the cash flow will be between M&A and buybacks over the longer term?

At least while we believe that the shares are undervalued, and this is clearly the situation today, so this is what you should expect us to do, again at least while we see that delta.

At least while we believe that the shares are undervalued, and this is clearly the situation today, so this is what you should expect us to do, again at least while we see that delta.

Yeah, so let me kind of remind what we have been discussing during the last week. First is we have shared that M&A is an important part of our plan. Second, we have identified five key growth areas for the company, where we think M&A could help us to grow profitably at a faster way, and [ph] that we are scanning (53:26) opportunities to do that. At the same time, we have also said that we are going to be very rigorous stewards of capital, that any opportunity we take versus the strategy versus the operational ability that we need to have to deliver on the financial goals, and then of course, we need to have attractive returns, better returns than to buyback shares, which is a fairly high threshold given that we believe that shares are undervalued.

In terms of specific size, I don’t think we have any – we haven’t made any commitments on that space. We really need to deliver strong financial results and be aligned with our strategies. But we are not going to do anything different because of the Oracle cash that we got. We are going to continue to manage capital with a framework that we have been discussing until now and with the same rigor.

Okay. Thanks, Enrique. If I could follow-up, a few people have asked about the ASP and its sustainability, and clearly you talk about strong demand backlog and this ASP strength to sustain in fiscal 2022. But if I could ask it maybe a little differently, how much of this ASP increase would you attribute to the tightness in the market, which is driving favorable pricing versus potentially as supply improves over the course of the next few quarters, do you still anticipate the mix can drive these sort of elevated levels of ASP growth? Thank you.
Yeah, I think the key thing really is what is going to be the gross margin that we will be delivering or the operating profit margin. And as Marie was saying, we increased our guidance a few weeks ago, and we expect to continue to be at the high end of the range through 2022. What we think will happen is eventually, the price availability will reduce as volumes will increase, but as volume will increase, we will also see additional business. So one will compensate the other, so we will stay within the high end of the range through 2022.

Marie E Myers
Chief Financial Officer, HP, Inc.

And I’d just add, we are still in that – it's a bit like the laws of economics. While you're in a supply-constrained environment, your favorable pricing really persists, but in addition, demand is strong. So together, that really contributes to what we’ve seen in terms of this favorable pricing dynamic, which we do expect will continue through 2022. But we do expect some normalization as the year goes on as well.

Operator: The next question is from Aaron Rakers with Wells Fargo. Please go ahead.

Hi. This is [ph] Jake (56:07) on for Aaron. Congrats on the great quarter. Just really quick, I was wondering if you could talk a little bit more about what you’re seeing in the graphics market, and then [ph] kind of just (56:15) how you're thinking about that business heading into 2022.

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

Yeah. So we have seen a strong recovery of the overall industrial graphics business, mostly driven by the more industrial side, driven by labels and packaging. We have seen nice growth in Q4, and we expect to see very nice growth in 2022. So, really good progress and really a contributor of growth for the company in 2022.

And just as kind of a follow-up on that, is that a market you guys would be targeting for M&A with just how fragmented it is? Is that something you’re focused on?

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

Well, we have a very strong portfolio in that category. That is a combination of both internal development and M&A that we have done over the years. We have done several acquisitions in that space, both in printing technology and also in software, and we have identified this as one of the key five growth areas of the company. And as I said, M&A is part of our plan. We expect to continue to do that in 2022. And as we also shared, we have room to do that, while at the same time we return aggressive capital to shareholders through both share repurchases and dividends. And as I said before, over time, we will be increasing our ratio to 1.5 to 2, which will be also another source of capital.

Great. Thank you.
And I think it's now time to wrap up. So let me close the call by saying that we really feel strong about the quarter that we have. It's a great proof point of the ability that we have to deliver value toward shareholders and shows the strong momentum that we have entering fiscal year 2022. And this is why we provided the guide that we provided for Q1 that shows the strength that we see in our business.

So thank you, everybody, for the call today. And we wish all of you a great Thanksgiving with your families. Thank you.

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