



ANALYST QUICK NOTES

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HP Inc. (NYSE: HPQ: BUY)

Target Price: \$22

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The two HP's: The market likes one, does not like the other

- HPE is down 23% in 2017
- HPQ is up 19% year to date
- That compares to an 8% gain for the Argus information processing & storage peer group.

HPQ thesis

- HP Inc., in our view, is doing a solid job maintaining and expanding market share in PCs while driving more profit to the bottom line.
- The company is now well along in righting its printing business.
- Though near-term EPS growth is light, the company is building a sustainable business for the future.

PC and printing outlook improving for HPQ

- 1Q17 PC shipments should be in the 65-68 million range, flat to up slightly YOY.
- The market is shading toward enterprise, SSD, ultraportable PCs – all trends favoring HPQ's technology.
- HPQ's global 4Q16 market share in PCs expanded to 21.8% in 1Q17 from 21.4% in 4Q16 (note that fiscal 1Q17 overlaps two months with calendar 4Q16).
- In the printing business, supplies revenue is on track to stabilize by year-end fiscal 2017; channel inventories are in lower and tighter ranges; and momentum is building in strategic areas.

HPE thesis

- HOLD-rated Hewlett Packard Enterprise has completed the spinoff and merger of its enterprise services business with the former Computer Sciences Corp. (CSC), forming DXC Technology.
- Early in March, HPE announced a \$1 billion-plus deal to acquire Nimble Storage, which makes all-flash and hybrid arrays.
- But HPE finds itself playing catch-up in rapidly evolving markets such as cloud infrastructure and all-flash storage.
- We are not looking to upgrade HPE purely on value, and would need to see signs that the reconfigured company is firmly back in growth mode before becoming more positive on the shares.

Guidance revision signals no margin gain from spinoff

- Fiscal 2017 non-GAAP EPS is now forecast in a range of \$1.46-\$1.56, reduced from earlier guidance of \$1.88-\$1.98.
- We are now modeling fiscal 2017 revenue of \$37.4 billion, down 25% from \$50.1 billion for 2017.
- We also look for FY17 non-GAAP EPS of \$1.49 per diluted share, reduced from \$1.92 per diluted share.
- These new estimates assume that the non-core software asset divestiture will occur early in fiscal 2018.

Conclusion

- At inception, HPE looked like the better-positioned company.
 - But HPQ is the clear winner here, and we reiterate our BUY to \$22.
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