



Research Analysts:

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Recommendation: **BUY**

UConn Student Managed Fund

HP Inc (NYSE: HPQ)

SEPTEMBER 29, 2021

Target Price: \$35.40
Current Price: \$27.24
Stop loss: \$21.79
52 Week High/Low: \$36.00/\$17.25

Market Cap (\$B): \$1.92 B
Dividend Yield: N/A
Beta: 1.01
ROE: 9.1%

P/E Ratio (TTM): 8.0
EV/EBITDA: 6.7
EBITDA Margin: 9.5%
Gross Margin: 20.67%

Company Overview

HP Inc. is a leading provider of computers, printers, and printer supplies. The company's three operating business segments are its personal systems, containing notebooks, desktops, and workstations; and its printing segment which contains supplies, consumer hardware, and commercial hardware; and corporate investments. In 2015, Hewlett-Packard was separated into HP Inc. and Hewlett Packard Enterprise and the Palo Alto, California-based company sells on a global scale.

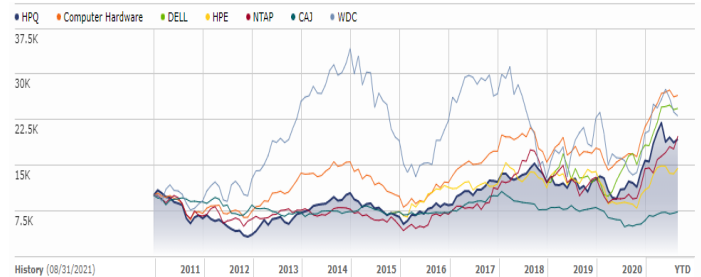
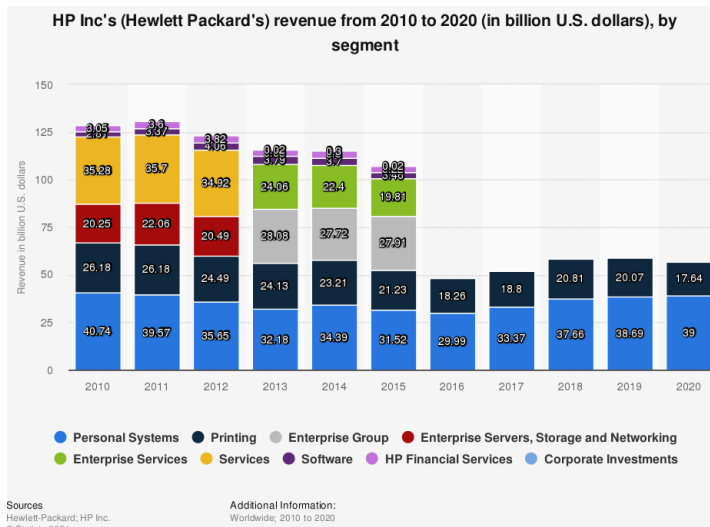
HP Inc. provides printers, printing supplies, personal computers, workstations, mobile devices, and related products, services, and software to consumers and businesses. Printing accounted for 32% of revenues in 2020, 57% of operating profits; Personal systems, 68% of revenue, 43% of operating profits.

Revenue by geography: the Americas region, 43% of total (the United States, 36%; Canada L.A., 7%); Europe, Middle East, Africa, 35%; Asia Pacific, Japan, 22%.

About 53,000 employees. Officers & directors own less than 1% of stock; Dodge & Cox, 12.0; Vanguard Group, 9.5%; BlackRock, 9.1% (2/21 proxy).
Chairman: Charles Bergh. CEO: Enrique Lores. Address: 1501 Page Mill Rd., Palo Alto, CA 94304. Telephone: 650-857-1501. Internet: www.hp.com

The Computer And Peripherals Industry may face shifting market conditions in the years ahead. As offices and schools reopen, personal computer sales might slow, but demand for enterprise computer equipment should strengthen. Computer makers probably will face shortages of computer chips and other components for some time to come and that might limit sales growth and squeeze margins. Even so, most have taken measures to rein in expense growth. The industry contains several selections with good 3- to 5-year capital gains potential.

Although the delta variant course is uncertain, we look for demand for enterprise computing equipment to strengthen in the next couple of years. Component shortages remains a problem. The mostly favorable demand trends notwithstanding, the availability of semiconductors and other components may determine whether computer hardware sales rise or fall in the years ahead. Computer chips go into a wide variety of products, like automobiles and household appliances, in addition to computer equipment. A lot of semiconductor production is based in Southeast Asia, where the pandemic has worsened.



Investment Thesis

- ✓ Introduction of Integrated Security Offerings (Wolf Securities)
- ✓ Acquisition of Teradici Corporation
- ✓ Smart Printing Systems (Expansion of HP+ into other countries)
- ✓ Acquisition of HyperX
- ✓ Consistent Production Innovation

Investment Risks

- Combining company cultures and unlocking synergies
- Semiconductor chips shortage around the globe slowing down the production
- Delta variant has lowered traffic into retail stores
- Innovation cost could be passed down to customers
- Share buybacks to increase share price
- Consumer perception

Industry Outlook

Financial Performance

Breakdown	TTM	10/31/2020	10/31/2019	10/31/2018	10/31/2017
> Total Revenue	62,070,000	56,639,000	58,756,000	58,472,000	52,056,000
Cost of Revenue	49,239,000	46,202,000	47,586,000	47,803,000	42,478,000
Gross Profit	12,831,000	10,437,000	11,170,000	10,669,000	9,578,000
> Operating Expense	7,699,000	6,710,000	8,169,000	7,005,000	5,520,000
Operating Income	5,132,000	3,727,000	3,001,000	3,664,000	4,058,000
> Net Non Operating Interest Inc...	-256,000	-239,000	-242,000	-312,000	-309,000
> Other Income Expense	-142,000	-257,000	-236,000	-339,000	-473,000
Pretax Income	4,734,000	3,231,000	2,523,000	3,013,000	3,276,000
Tax Provision	662,000	387,000	-629,000	-2,314,000	750,000
> Net Income Common Stockhold...	4,072,000	2,844,000	3,152,000	5,327,000	2,526,000

Valuation Assumptions & Key Financials

We recommend a BUY rate for HPQ based on a target price of \$35.40 per share. This target price reflects a 29.94% margin of safety based on its closing price of \$27.24 on September 20, 2021. We calculated WACC as 5.42%, assuming a terminal growth rate of 1% and a 6.7x exit EV/EBITDA.

Perpetuity Growth Method - Value per Share	
Free Cash Flow at year 2025	2,052.01
WACC	5.42%
Perpetuity Growth Rate	1.00%
Perpetuity Value in 5 years	46,932.69
Present Value of Perpetuity (@ WACC)	36,053.18
(+) Present Value of Free Cash Flows (@ WACC)	12,687.41
(=) Current Enterprise Value	48,740.59
(-) Long Term Debt	7,112.00
(+) Cash and Marketable Securities	3,439.00
(=) Equity Value	45,067.59
Shares outstanding	1,153.00
Estimated Value per Share (USD)	39.09
Current Price (USD)	27.24
Estimated Upside	11.85

Terminal EBITDA Method	
Terminal EBITDA at year 2025	5,751.93
WACC	5.42%
Exit Enterprise Value / EBITDA	6.70
Terminal Value in 5 years	38,537.92
Present Value of Terminal Value (@ WACC)	29,604.41
(+) Present Value of Free Cash Flows (@ WACC)	12,687.41
(=) Current Enterprise Value	42,291.82
(-) Long Term Debt	7,112.00
(+) Cash and Marketable Securities	3,439.00
(=) Equity Value	38,618.82
Shares outstanding	1,153.00
Estimated Value per Share (USD)	33.49
Current Price (USD)	27.24
Estimated Upside	6.25

ESG Considerations

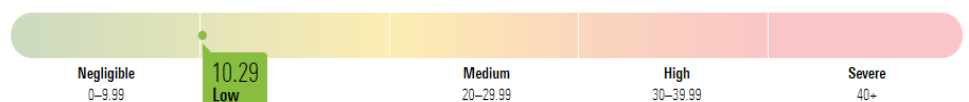
HPQ has a low overall ESG rating and from reviewing the ESG report, HP's committed to creating positive, lasting change for the planet and grow through an inclusive culture and offering solutions to some of the greatest challenges that face business and society.

Sustainability ⓘ

ESG Risk Rating Assessment



ESG Risk Rating



Highest Controversy Level (1 = Low, 5 = Severe)

2 Moderate

Incidents: Business Ethics, Governance, Social Supply Chain, Customer

Top 3 Material ESG Issues

Human Capital
Overall

Business Ethics
Overall

Product Governance
Overall

ESG Risk Rating is as of Sep 01, 2021. Highest Controversy Level is as of Sep 08, 2021. Sustainalytics Subindustry: Technology Hardware. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: [sustainalytics.com/esg-ratings/](https://www.sustainalytics.com/esg-ratings/).