

Finance 640: Intro to Credit Trading

HP Inc. (HPQ)

Business Description

HP Inc. is a global provider of personal-computing and printing solutions that designs, manufactures, and supports a broad portfolio of hardware, peripherals, and related consumables. The company operates under a vertically integrated model combining design, component sourcing, assembly, and distribution, supported by one of the largest global channel networks in the technology hardware industry.

HP's operations are organized into two primary business groups. The Personal Systems segment provides commercial and consumer PCs, workstations, and peripherals. This unit benefits from multi-year enterprise refresh cycles, education and government contracts, and a broad installed base that supports scale purchasing and inventory flexibility. The Printing segment encompasses hardware, supplies, and managed print services. Although hardware demand is structurally mature, recurring supplies consumption provides a high-visibility cash-flow stream and cushions cyclicality in unit shipments.

The company's revenue base is geographically diversified, with roughly two-thirds generated outside the United States. Its procurement and logistics infrastructure allow for rapid cost adjustments in response to component pricing and demand shifts. HP maintains a lean manufacturing footprint through contract partners and selective internal production, supporting asset-light operations and strong cash conversion. From a credit standpoint, HP's business profile is defined by moderate cyclicality offset by recurring consumables revenue, high working-capital efficiency (negative cash conversion cycle), and conservative financial policy targeting gross leverage in the low-2x range. These characteristics underpin stable investment-grade credit quality despite limited top-line growth prospects.

Sector: Technology Hardware **Industry:** Computer Hardware & Peripherals

Bond Statistics					
Issuer Legal Name	HP Inc.				
Recommendation	Buy				
Expected Return	5.80% - 6.00%				
Security	HPQ 4.20% due 04/15/2032				
Price	\$97.63				
CUSIP	40434LAL9				
Seniority	Senior Unsecured				
Moody's/S&P/Fitch Rating	Baa2/BBB/BBB+				
Moody's/S&P/Fitch Outlook	Stable/Stable/Stable				
Issue Size (\$MM)	1000 M / 676M outstanding				
Coupon Frequency	4.2% / semi-annual				
Make-Whole call	T + 30 bps to 01/15/2032				
Modified Duration	5.55 yrs				
Convexity	0.36				
YTW	4.63%				
OAS	77 bps				
5 Year CDS	60 bps				
Operating Metrics					
FYE 10/31 (\$MM)	<u>2023A</u>	<u>2024A</u>	<u>2025E</u>	<u>2026E</u>	<u>2027E</u>
Revenue	53,718	53,559	55,121	55,029	54,970
EBITDA	4,306	4,648	4,299	5,245	5,240
CFO	3,571	3,749	2,237	5,449	3,849
CAPEX	609	592	915	915	915
Adj. FCF	2,962	3,157	1,322	4,534	2,934
Credit Metrics					
(\$MM)	<u>2023A</u>	<u>2024A</u>	<u>2025E</u>	<u>2026E</u>	<u>2027E</u>
Debt/LTM EBITDA	2.34x	2.16x	2.07x	1.60x	1.41x
Net Debt/LTM EBITDA	1.59x	1.46x	1.69x	1.10x	0.99x
Interest Coverage	8.30x	8.62x	9.09x	11.09x	11.08x

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Investment Thesis

HP Inc.'s 4.20 % senior unsecured notes due April 2032 offer defensive carry and moderate roll-down within the BBB-rated technology hardware sector. At a current OAS of 77 bps, the bonds are fairly valued to slightly tight versus the BBB Technology BVAL curve at the 10-year tenor, reflecting HP's stable fundamentals and strong liquidity rather than mispricing.

Fundamentals: Gross leverage remains near 2.0x EBITDA, supported by \$2.5–3.0 B annual FCF, and management maintains a stated low-2x leverage ceiling while fully funding distributions from internal cash flow. HP holds \$2.9 B cash and a \$5 B undrawn revolver, with no near-term maturities.

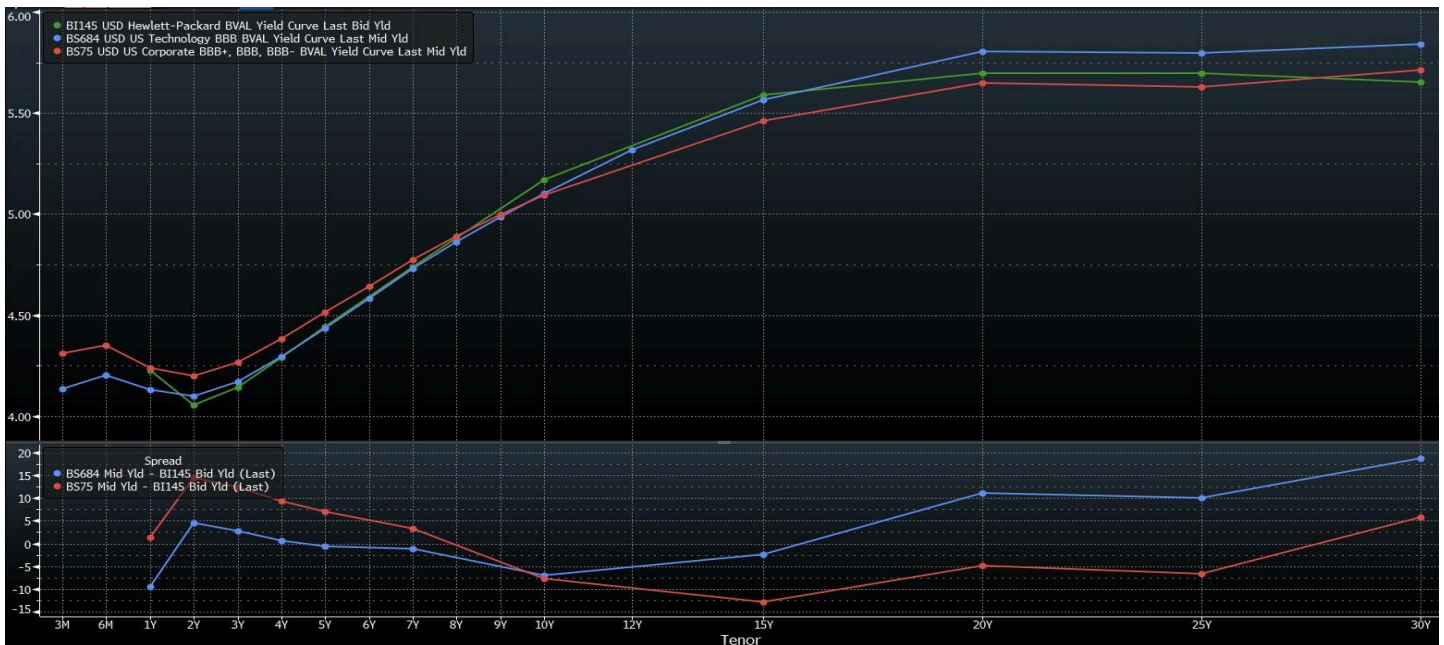


Exhibit A: HP Inc. Yield Curve vs Benchmark (BVAL)

Relative Value: As shown in *Exhibit A*, HP's BVAL curve tracks the BBB Technology and BBB Composite benchmarks through 5-9 years and trades slightly through (tighter than) the BBB Tech curve around 10 years (≈ -8 bps spread in bottom panel). Only beyond 10 years does HP's curve rise above benchmarks ($\sim +10-15$ bps), where longer-dated HP paper is modestly wide. At the 2032 tenor, the bond is fair-to-slightly rich, but the carry profile and credit improvement outlook support continued tight trading and low volatility.

Return Profile: Assuming 10 bps of spread tightening to 67 bps, total return is 5.8–6.0 % over 12 months in a static-rate environment. Downside protection comes from carry (4.3 %), stable BBB fundamentals, and ample liquidity. HP represents a defensive carry trade with upgrade optional potential by FY26–27 as net leverage falls to $\sim 1.1x$.

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Background

HP Inc. was created in November 2015 following the separation of Hewlett-Packard Company into HP Inc. (Personal Systems and Printing) and Hewlett Packard Enterprise (enterprise infrastructure, software, and services). The split allowed HP Inc. to focus on the consumer and commercial PC markets alongside printing hardware and consumables, adopting an asset-light, capital-efficient business model prioritizing cash generation and shareholder returns.

Since the separation, HP has consolidated manufacturing through contract partners (Flex, Jabil, Quanta), streamlined its supply chain to achieve negative working capital, and maintained a conservative leverage target in the low-2x range. Management's approach prioritizes consistent free cash flow generation, disciplined capital allocation, and investment-grade ratings stability over expansionary M&A or debt-funded growth initiatives.

The company has successfully navigated multiple PC demand cycles, the 2020-2021 pandemic-driven surge and subsequent normalization, the 2021-2022 global semiconductor shortage, and ongoing secular pressures in printing. Through these periods, HP maintained leverage below 2.5x and continued returning substantial capital to shareholders (\$15B+ over the past four years) while preserving investment-grade credit metrics.

This disciplined financial framework and proven operational resilience through cycles underpin HP's stable BBB credit profile and provide confidence in management's ability to execute the FY26-27 credit improvement trajectory.

Recent Developments

HP's FY2025 results reflect stabilization after a soft first half, with Q3 marking a clear inflection in free cash flow and working capital normalization despite margin headwinds.

Q3 FY2025 (Quarter Ended July 31, 2025): HP posted \$13.93 billion in revenue (+3.1 % YoY), driven by 6 % growth in Personal Systems as enterprise refresh cycles, early AI-PC adoption, and government/education demand offset continued consumer softness. Printing declined 3.8 % YoY as hardware volumes fell on structural pressures, though supplies revenue remained resilient.

Profitability remained under pressure: gross margin 20.5 % (-100 bps YoY) from competitive PC pricing, 15-20 % DRAM/SSD inflation, and higher freight costs. EBITDA fell 11 % YoY to \$1.02 billion (7.3 % margin), while net income rose 19 % YoY to \$763 million on a lower effective tax rate (16.9 %).

The quarter delivered a decisive cash-flow turnaround:

- Operating CF: \$1.66 billion
- Free CF: \$1.45 billion (+15 % YoY)
- Working Capital: +\$1.79 billion accounts-payable inflow as payment terms normalized.

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Balance Sheet: Cash \$2.87 billion; debt \$9.6 billion; net leverage 1.46x. Capital returns totaled \$422 million (\$150 M buybacks, \$272 M dividends).

- Key Takeaway: Q3 confirmed that early-year FCF weakness was timing-driven. With normalized payables and improving conversion, HP exits FY25 with stronger liquidity momentum.

First Half FY2025: Revenue of \$26.7 billion (+2.8 % YoY) reflected +5.9 % in Personal Systems and -3.4 % in Printing. Margins compressed (gross 20.9 %, -170 bps) and EBITDA \$1.9 billion (7.1 % margin, -17 % YoY) as cost inflation and pricing competition persisted. Free cash flow turned -\$73 million (vs. +\$425 M prior year) due to a \$1.7 billion accounts-payable outflow from payment normalization. Q3's reversal validates this as a temporary working-capital swing.

FY2024 Full Year: HP generated \$53.6 billion revenue (-0.3 % YoY), with Personal Systems +1.4 % offsetting Printing -3.8 %. EBITDA \$4.65 billion (8.7 % margin, +8 % YoY) and FCF \$3.16 billion (+7 %) fully funded \$3.2 billion shareholder returns while modestly reducing leverage to 1.46x (from 1.59x). HP maintained PC share, executed cost actions, and managed supply-chain normalization effectively—building a base for FY26 recovery.

Recent Financial Performance

HP's revenue mix and margin trajectory illustrate a company transitioning from cyclical softness toward steady, cash-driven recovery.

Segment (\$M)	Q3 FY25	Q3 FY24	YOY	FY24	FY23	YOY
Personal Systems	9,931	9,369	6.00%	36,195	35,684	1.40%
Printing	3,986	4,143	-3.80%	17,338	18,029	-3.80%
Corporate/Other	15	7	114%	26	5	NM
Total Revenue	13,932	13,519	3.10%	53,559	53,718	-0.30%

Segment Trends:

- Personal Systems (~70 % of sales): +6 % YoY in Q3 on enterprise demand, AI-PC launches, and Windows 10 end-of-life migrations. Commercial mix now dominates, driving higher visibility and margins.
- Printing (~29 % of sales): -3 to -4 % annual decline as office digitization and remote work weigh on hardware volumes; supplies revenue remains stable. Subscription and managed-print models are gradually adding recurring contribution

Margin and Cashflow: Gross margin averaged $\approx 21\%$, pressured by component inflation but stabilizing sequentially; EBITDA margin 7-8 % represents the cyclical trough. R&D investment (~3 % of sales) and SG&A discipline (~10 %) preserve operating leverage as volumes recover. Strong \$3.16B FCF (+7% YoY) demonstrated HP's cash generation capability. Q4 delivered \$1.47B FCF alone, showing a seasonal pattern

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where 40-50% of annual FCF typically generated in fiscal Q4 (calendar Q3). FY25 represents temporary departure (31% EBITDA to FCF conversion) from working capital timing. Long-term conversion rate remains structurally intact, supporting \$3-4B+ normalized FCF capacity.

Margin Analysis	Q3 FY25	Q3 FY24	Δ bps	FY24	FY23	Δ bps
Gross Margin	20.50%	21.50%	-100	22.10%	21.40%	70
R&D % Sales	2.90%	3.10%	-20	3.10%	2.90%	20
SG&A % Sales	10.40%	10.40%	flat	10.60%	10.00%	60
EBITDA Margin	7.30%	8.50%	-120	8.70%	8.00%	70
Net Margin	5.50%	4.70%	80	5.20%	6.10%	-90
Cash Flow (\$M)	FY24	FY23	YoY	FY25E	FY26E	FY27E
Operating Cash Flow	3,749	3,571	5%	2,237	5,449	3,849
Capital Expenditures	-592	-609	-3%	-915	-915	-915
Free Cash Flow	3,157	2,962	7%	1,322	4,534	2,934
FCF Margin %	5.90%	5.50%	+40bps	2.40%	8.20%	5.30%

Near Term Outlook

FY2025 represents a transitional year for HP as profitability stabilizes and cash flow begins to recover from early-year working capital headwinds. We project revenue of approximately \$55.1 billion (+2.9 % YoY), supported by 5–6 % growth in Personal Systems from enterprise PC refreshes, AI-enabled device adoption, and Windows 10 end-of-life migrations. These gains should more than offset a 3–4 % annual decline in Printing, where hardware volumes continue to contract but supplies revenue remains resilient. The company's broad commercial exposure and disciplined pricing strategy provide a buffer against continued consumer softness.

Profitability is expected to trough in FY2025, with EBITDA of roughly \$4.3 billion (7.8 % margin) reflecting temporary cost pressures from component inflation and promotional pricing. Sequential improvement is already evident in Q3 and should continue through year-end as DRAM and SSD prices flatten, the product mix skews further toward higher-margin commercial PCs, and cost actions initiated earlier in the year are fully realized. On this trajectory, HP enters FY2026 with a structurally leaner expense base and improving gross-margin profile.

Free-cash-flow generation will remain constrained in the near term, though the trend is clearly improving. Our conservative estimate of \$1.3–1.5 billion for FY2025 incorporates residual H1 working-capital drag, while management's \$2.6–3.0 billion guidance appears achievable given Q3's \$1.45 billion FCF rebound and typical Q4 seasonality, when 40–50 % of annual cash flow is generated. Looking ahead, free cash flow is expected to inflect above \$4.5 billion in FY2026 as EBITDA rises to the \$5.2–5.8 billion range (\approx 9.5 % margin), working capital normalizes, and capex remains stable near \$900 million (1.6 % of sales). This sustained recovery

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supports rapid deleveraging toward management's sub-2.0x gross-leverage target and positions HP for potential credit-rating upgrades by FY2026–27.

Liquidity

HP maintains a strong liquidity position supported by consistent free-cash-flow generation, sizable revolver capacity, and limited near-term maturities. As of FY2025E, total liquidity stands at \$1.75 billion, consisting of \$1.65 billion in unrestricted cash and \$1.1 billion in uncommitted lines of credit, partially offset by \$526 million of near-term debt maturities. Including the company's fully undrawn \$5.0 billion revolving credit facility due August 2029 and a \$6.0 billion commercial paper program, total available sources of liquidity exceed \$12 billion, providing ample financial flexibility even through cyclical PC and printing downturns.

	Liquidity Model					
<i>\$ Millions</i>	<u>FY 2022A</u>	<u>FY 2023A</u>	<u>FY 2024A</u>	<u>FY 2025E</u>	<u>FY 2026E</u>	<u>FY2027E</u>
Unrestricted Cash	3,145	3,107	3,238	1,648	3,842	4,436
Commercial paper	6,000	6,000	6,000	6,000	6,000	6,000
\$5.0 billion RCF due 05/26/2026	5,000	5,000	-	-	-	-
\$5.0 billion RCF due 08/1/2029	-	-	5,000	5,000	5,000	5,000
\$1 billion RCF due in 364 days	-	1,000	-	-	-	-
Uncommitted lines of credit	937	1,200	900	1,100	1,100	1,100
Total Liquidity	3,082	4,307	3,138	1,748	3,942	4,536
Less: letters of credit	-	-	-	-	-	-
Less: NTM debt maturities	(250)	-	(1,150)	(526)	(1,000)	(900)
Adjusted Liquidity	2,832	4,307	1,988	1,222	2,942	3,636

Even through periods of component inflation and revenue softness, HP's liquidity coverage and access to diversified funding sources remain ample. The firm's consistent maintenance of \$6 billion in commercial paper authorization and staggered revolving facilities—most notably the 2029 \$5 billion sustainability-linked RCF—illustrates proactive liquidity planning. HP's conservative approach to liquidity management continues to support its BBB credit profile and stable outlook, with near-term cash needs well covered by internal generation and committed credit availability.

Capital Structure

HP's capital structure remains conservative and entirely unsecured, providing a strong foundation for its BBB-rated credit profile. As of FY2025E, the company carries \$10.1 billion of total debt and \$2.9 billion of cash, resulting in net debt of roughly \$7.2 billion and net leverage of 1.46x EBITDA. The company's debt mix is 100% senior unsecured, fixed-rate, and free of financial maintenance covenants. HP maintains broad access to both public and private credit markets through its benchmark bond platform and \$6 billion commercial-paper authorization.

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The weighted-average coupon is approximately 4.3 % and the weighted-average maturity is roughly 10 years, reflecting a disciplined approach to liability management. HP’s largest upcoming maturity is \$1.7 billion in FY2026 (2.20 % and 1.45 % notes), followed by modest amortizations before the long-dated 2041 maturity. This well-laddered structure minimizes refinancing risk, while the absence of secured debt preserves balance-sheet flexibility.

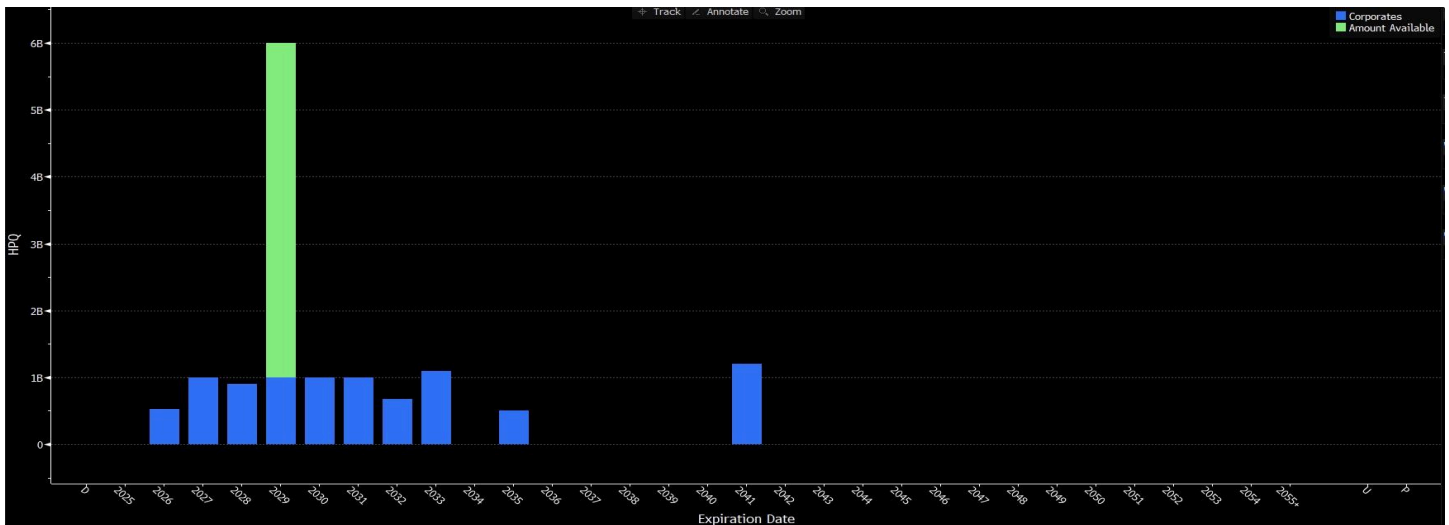


Exhibit B: HP Inc. Debt Maturity Profile

Credit metrics remain solidly investment-grade. FY2024 interest coverage stood at 11.1x, far above the company’s minimum covenant of 3.0x, and gross leverage at 2.16x, well within the 4.0x covenant limit. Free-cash-flow to debt coverage exceeded 30 % in FY2024 and is projected to approach 45 % by FY2026 as FCF normalizes above \$4.5 billion. HP’s conservative capital policy—favoring internally funded shareholder returns and minimal reliance on incremental debt—supports a stable ratings outlook and positions the company for potential tightening of credit spreads as operating cash flow recovers.

Ratings Commentary

We believe HP is likely to maintain a Stable rating over the next 12 months. Rating agencies anchor their outlooks on HP keeping leverage below 2x, sustaining free cash flow generation, and preserving liquidity despite pricing pressure and cyclicity in printing and PCs. Our model projects net leverage in the mid-1x area and continued FCF support, which limits near-term downgrade risk and supports ratings stability. However, if HP demonstrates multiple consecutive quarters of growth in the Printing segment and AI-driven PC demand materializes as expected, an upgrade becomes plausible over time — but only after consistent execution is visible.

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Moody's (Baa2/Stable)	S&P (BBB/Stable)	Fitch (BBB+/Stable)
<p>Moody's maintains a Stable outlook based on HP's strong scale in PCs and printing, \$2.9B liquidity, expected ~\$1.9B FCF in FY26, and anticipated deleveraging from ~2.6x to low-2x over the next 12 months as debt amortizes and EBITDA improves.</p>	<p>S&P maintains a <i>Stable</i> outlook based on HP's ability to keep S&P adjusted leverage below 2x, resilient free cash flow generation of \$3B+, and gradual recoveries in PC demand alongside cost efficiencies that support ~9% EBITDA margins despite pressure in printing and hardware markets.</p>	<p>Fitch affirms HP at BBB+ with a <i>Stable</i> outlook, citing strong liquidity, manageable maturities, margin support from restructuring and cost cuts, and a stated commitment to maintaining EBITDA leverage under 2x even while returning cash to shareholders.</p>
<p>Upgrade Triggers</p> <ul style="list-style-type: none"> Gross leverage declines from ~2.6x to the low-2x or below sustainably Free cash flow remains strong at ~\$2B+ after dividends PC growth (including AI PC refresh and Windows 10 replacement cycle) drives EBITDA expansion Printer segment stabilizes and secular decline risk moderates 	<p>Upgrade Triggers</p> <ul style="list-style-type: none"> Sustained steady expansion in both PC and printer segments Consistently outperforms peers and execute new growth strategies Maintains S&P-adjusted leverage well below 1.5x after shareholder returns, acquisitions, and business volatility 	<p>Upgrade Triggers</p> <ul style="list-style-type: none"> Sustained constant currency revenue growth Total debt with equity credit to operating EBITDA sustained below 1.5x through cycle Gross debt to FCF sustained at or below 3.5x Continued traction in growth initiatives and future strategy execution Structural margin improvements vs peers Clear commitment to a more conservative financial policy
<p>Downgrade Triggers</p> <ul style="list-style-type: none"> Gross leverage fails to fall from the ~2.6x area or rises Printer hardware and supplies decline faster than anticipated (given 60% earnings dependency) PC demand weakens or tariff/cost pressures persist longer than expected Capital returns compromise deleveraging (management targets <2x leverage before buybacks) 	<p>Downgrade Triggers</p> <ul style="list-style-type: none"> S&P adjusted leverage exceeds 2.0x on a sustained basis due to weaker demand, market share loss, or margin pressure Adopts a more aggressive financial policy causing leverage to rise above 2.0x 	<p>Downgrade Triggers</p> <ul style="list-style-type: none"> Sustained negative revenue growth Total debt with equity credit to operating EBITDA sustained above 2.0x Gross debt to FCF sustained above 4.5x Material M&A without deleveraging back to target within 18-24 months Shift towards aggressive financial policy or abandonment of leverage targets.

Management

HP's leadership team combines deep institutional experience with disciplined financial management, underpinning the company's consistent credit performance and investment-grade profile. The team has demonstrated operational agility through multiple market cycles and maintained strong execution on balance-sheet and cash-flow priorities.

Key Executives

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- Enrique Lores – President & Chief Executive Officer
 - Appointed CEO in November 2019; over 30 years with HP (joined 1989).
 - Career HP executive with extensive experience leading Imaging, Printing & Solutions (2015–2019).
 - Known for operational rigor, cost discipline, and focus on sustainable free-cash-flow generation.
 - Successfully navigated pandemic-era supply-chain disruption while maintaining investment-grade ratings.
- Karen Parkhill – Chief Financial Officer
 - Appointed CFO in August 2024; joins HP from Medtronic, where she served as EVP & CFO (2016–2024).
 - Earlier finance leadership roles at Comerica and JPMorgan Chase.
 - Brings deep capital-markets experience, strong balance-sheet management, and a disciplined approach to liquidity and leverage.
- Tuan Tran – President, Imaging, Printing & Solutions
 - 28 years with HP, currently leading the global printing business.
 - Focused on cost transformation, subscription-based printing, and margin stability in a structurally declining segment.
 - Provides operational continuity across one of HP’s most cash-generative divisions.
- Alex Cho – President, Personal Systems
 - 29 years with HP, leading the PC and commercial systems segment.
 - Oversees AI-PC strategy, product innovation, and enterprise refresh cycle execution.
 - Central to near-term growth and margin recovery within HP’s largest business unit.

HP’s management depth and long average tenure (20 + years across the executive team) provide stability and institutional expertise. The combination of Lores’s operational leadership and Parkhill’s external financial discipline ensures continued focus on leverage management, working-capital efficiency, and investment-grade credit preservation.

Capital Allocation & Shareholder Returns

HP follows a disciplined capital-allocation hierarchy focused on (1) sustaining and growing the dividend, (2) preserving its investment-grade profile with a gross-leverage ceiling of ~2.0x EBITDA, (3) opportunistic share repurchases funded by residual free cash flow, and (4) targeted reinvestment in core growth initiatives.

Dividend: The quarterly dividend is \$0.2625 per share (\$1.05 annualized), representing roughly \$1.1 billion of annual distributions and ~40–45 % of normalized free cash flow.

Share Repurchases: HP maintains a \$4.0 billion authorization approved in October 2023 with ≈ \$2.8 billion remaining as of Q3 FY 2025. Execution has remained active despite temporary cash-flow headwinds — \$2.0 billion repurchased in FY 2024 and \$850 million through Q3 FY 2025, including \$150 million in the most

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recent quarter. Management expects to accelerate repurchases to \$2.5–3.0 billion per year in FY 2026 as free cash flow recovers above \$4.5 billion while keeping gross leverage below 2.0x.

Track Record: Since its 2015 separation, HP has returned over \$15 billion to shareholders (~\$3.5 billion per year on average), funded entirely through internal cash generation. This shareholder-friendly yet credit-disciplined policy anchors HP's stable BBB ratings and supports potential spread tightening as operating cash flow rebounds.

Key Risks & Mitigants

- **Secular Printing Decline (High Impact / High Probability).** Printing hardware units continue to fall 3–4 % annually as enterprises digitize workflows. However, the segment's recurring supplies revenue (~60 % of segment sales) and subscription models (Instant Ink, managed print) generate durable cash flows with 35 %+ EBITDA margins, mitigating volume erosion. Printing now represents only ~29 % of total revenue.
- **PC Market Cyclicalities (Medium Impact / Medium Probability).** Personal Systems (~70 % of sales) faces enterprise and consumer IT cycles. Mitigants include a commercial-heavy mix (~70 % of segment revenue), Windows-10 end-of-life refresh demand, AI-PC launches, and a negative working-capital structure that provides natural liquidity hedging.
- **Component Cost Inflation & Supply Chain Risk (Medium Impact / Low Probability).** HP's scale and long-term supplier agreements moderate the effect of 15–20 % DRAM/SSD price volatility. Its asset-light manufacturing via Flex, Jabil, and Quanta offers agility and geographic diversification.
- **Execution Risk on FY 2026 Deleveraging (Medium Impact / Low Probability).** The upgrade case assumes FCF > \$4.5 billion and net leverage < 1.5x. Mitigants include seasonal Q4 cash-flow strength, reaffirmed management guidance, and ample liquidity (>\$12 billion sources).
- **Competitive Pressure (Medium Impact / Ongoing).** Dell and Lenovo remain aggressive in commercial PCs, while Apple's Mac momentum pressures the consumer segment. HP's enterprise relationships, AI-PC roadmap, and locked-in consumables ecosystem help preserve scale and margins.
- **Regulatory & Tariff Risk (Low Impact / Low Probability).** Global manufacturing diversification and multi-region sourcing limit exposure to U.S.–China trade actions. The company successfully navigated prior tariff cycles without material credit impact.

Overall, HP's risk profile is consistent with a stable BBB credit quality. Cyclical pressures in PC and Printing segments are well understood and manageable within its free-cash-flow capacity.

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Relative Value

HPQ 4.20 % '32 bonds trade near 117 bps Z-spread, around 20 bps wide to Dell and 17 bps wide to Marvell, despite stronger liquidity and lower leverage (1.7x vs 2–3x for peers). Within the BBB technology complex, HP offers superior carry and defensive characteristics, warranting tightening to ~100 bps as FCF recovers and deleveraging continues through FY 2026.

Relative Valuation	NVIDIA Corp	Qualcomm Inc.	Marvell Tech.	HP Inc	Dell Technologies
Ticker	NVDA	QCOM	MRVL	HPQ	DELL
Rating	A1/AA-/AA-	A2/A-/A	Baa3/BBB-/BBB-	Baa2/BBB/BBB+	BBB/Nr/BBB
Outlook	Stable	Stable	Stable	Stable	Stable/Positive
Revenues (\$mm)	130,500	38,962	5,767	54,710	101,450
EBITDA (\$mm)	83,320	11,956	991	4,600	10,100
EBITDA Margins	63.85%	30.69%	17.18%	8.41%	9.99%
EV (\$billions)	3,495	195	61	33,360	118,360
Total Debt (\$mm)	9,980	15,440	4,679	10,899	25,325
Net Debt (\$mm)	-33,230	2,140	3,730	7,646	21,569
Total Debt/EBITDA	0.12x	1.29x	4.72x	2.37x	2.51x
Net Debt/EBITDA	-0.40x	0.18x	3.76x	1.66x	2.14x
Price/FCF	77.85	17.22	69.94	11.13	39.91
Total Debt/Capital	0.13x	0.59x	0.35x	124.75x	105.67x
Net Debt/Capital	-0.42x	0.08x	0.28x	72.53x	76.58x
Comparable Bonds					
Security	NVDA 2.85 04/30	QCOM 2.15 5/20	MRVL 4.375 07/30	HPQ 4.2 04/32	Dell 5.1 02/36
Price	95.7	92.1	101.6	97.7	100.48
Coupon/Maturity	2.85	4.8	6.625	4.2	5.1
Modified Duration	3.83			5.55	7.9
Seniority	Unsecured	Unsecured	Unsecured	Unsecured	Unsecured
YTW	3.92%	4.07%	4.62%	4.37%	5.18%
Z-Spread	56	71	100	117	97.5
5-yr CDS (in bps)	20	19	50	60	56.1

Analysis

1. HP vs. Dell Technologies:
HP trades ~20 bps wide (117 bps vs 97 bps) despite lower net leverage (1.7x vs 2.1x), stronger liquidity (\$6 B +), and more predictable free-cash-flow generation. Dell's longer duration and higher exposure to cyclical infrastructure justify part of the gap, but HP's disciplined capital policy (< 2.0x leverage target) supports tightening potential of 10–15 bps.
2. HP vs. Marvell Technology:
HP offers similar maturity risk but trades ~17 bps wider than Marvell despite materially lower leverage (1.7x vs 3.8x) and 10x greater revenue scale. Marvell's smaller size and higher cyclicity suggest HP should trade tighter or at least in line.

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3. HP vs. Qualcomm & NVIDIA:

Both A-rated peers trade 45–60 bps tighter, consistent with stronger profitability (EBITDA > 30 %) and near-net-cash balance sheets. The current spread gap appropriately reflects rating and business-mix differences rather than mispricing.

HPQ 4.20 % '32 bonds appear modestly undervalued within the BBB technology hardware complex, offering 20–30 bps incremental spread versus comparable credits despite stronger liquidity and improving credit trajectory. At ~117 bps Z-spread and 4.37 % YTW, the issue delivers a compelling carry opportunity and upside from potential tightening as HP's FCF recovery and deleveraging materialize through FY 2026.

Overall, the bonds screen as fair-to-cheap, providing a defensive BBB carry trade with upgrade optionality and robust secondary liquidity.

Return Analysis

HP Inc.'s 4.20 % '32 senior notes demonstrate a favorable near-term carry profile with limited downside risk. Using Bloomberg HZ1 horizon modeling (settlement = 10/30/25; horizon = 09/30/26; modified duration = 5.55 yrs), we evaluate three cases reflecting spread compression, stability, and widening scenarios.

Base Case (OAS = 78.9 bps, Unchanged Spread)

Load CIX		Save as CIX		Refresh		Financing		Dur/Cvx		Tax Rates		
Swap Type	Risk	Settlement		OAS (I25)		Horizon		09/30/26		Financing		
Security	B/S	Amt (M)	Date	Price	OAS	Vol	Risk	Price	OAS	Vol	Rate	
HPQ 4.2 04/15/32	B	1,000	10/30/25	97.577000	78.9	20.5	5.43	98.247656	78.9	20.5		
Add Security												
Add Security												
											B/E	5.53
Return Analysis												
Reinvestment Rate		0.000 %		Income Tax		40.800 %		Capital Gains Tax		23.800 %		
View Cashflows												
				Pre Tax				After Tax				
	Total Return %	HPR %	MMKT %	Net P&L	Total Return %	HPR %	MMKT %	Net P&L				
HPQ 4.2 04/15/32	4.918	4.625	4.970	45,207	3.050	2.856	3.070	27,902				

The base case reflects pure carry return with minimal price movement. Coupon income (4.2 %) drives the bulk of performance, supported by modest pull-to-par and reinvestment income.

Bull Case (OAS Tightens 10 bps → 68.9 bps)

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Security	B/S	Amt (M)	Settlement Date	Price	OAS	Vol	Risk	Horizon Price	OAS	Vol	Rate	
HPQ 4.2 04/15/32	B	1,000	10/30/25	97.577000	78.9	20.5	5.43	98.720099	68.9	20.5		
Add Security												
Add Security												
											B/E	5.53

Return Analysis			
Reinvestment Rate	0.000 %	Income Tax	40.800 %
		Capital Gains Tax	23.800 %
View Cashflows			
Pre Tax			
Total Return %	HPR %	MMKT %	Net P&L
HPQ 4.2 04/15/32	5.426	5.108	5.489
After Tax			
Total Return %	HPR %	MMKT %	Net P&L
HPQ 4.2 04/15/32	3.440	3.225	3.466
			31,502

Modest spread tightening adds ~70 bps of price return on top of carry, producing a total return near 5 %. Upside is driven by improving fundamentals and sentiment toward BBB technology credit.

Bear Case (OAS Widens 10 bps → 88.9 bps)

Security	B/S	Amt (M)	Settlement Date	Price	OAS	Vol	Risk	Horizon Price	OAS	Vol	Rate	
HPQ 4.2 04/15/32	B	1,000	10/30/25	97.577000	78.9	20.5	5.43	97.776194	88.9	20.5		
Add Security												
Add Security												
											B/E	5.53

Return Analysis			
Reinvestment Rate	0.000 %	Income Tax	40.800 %
		Capital Gains Tax	23.800 %
View Cashflows			
Pre Tax			
Total Return %	HPR %	MMKT %	Net P&L
HPQ 4.2 04/15/32	4.410	4.142	4.451
After Tax			
Total Return %	HPR %	MMKT %	Net P&L
HPQ 4.2 04/15/32	2.659	2.489	2.674
			24,310

Even with 10 bps widening, coupons carry offsets price pressure, maintaining positive total return. HP’s stable BBB profile and strong liquidity buffer limit downside risk.

Across all cases, HPQ 4.20 % ’32 bonds deliver 4.4 – 5.4 % pre-tax total returns, with positive outcomes under both spread and rate shocks. The 4.2 % coupon provides strong carry stability, while moderate tightening could lift returns toward 5 %. Given improving leverage metrics, liquidity, and sector support, the bonds offer defensive carry with asymmetric upside — a **BUY for 12-month** tactical positioning.

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Appendix

Figure 1: Income Statement

x INCOME STATEMENT							
Fiscal year	FY22A	FY23A	FY 24A	FY25E	FY26E	FY27E	LTM
Fiscal year end date	10/31/22	10/31/23	10/31/24	10/31/25	10/31/26	10/31/27	7/31/25
Net Revenue:							
Personal systems	44,011	35,684	36,195	38,345	38,894	39,451	37,770
Printing	18,902	18,029	17,338	16,719	16,078	15,462	16,888
Corporate investments	2	7	25	59	59	59	54
Other	(5)	(2)	1	(3)	(3)	(3)	(1)
Total net revenue	62,910	53,718	53,559	55,121	55,029	54,970	54,711
Cost of net revenue:							
Products	(48,881)	(40,484)	(39,952)				(41,393)
Services	(1,766)	(1,726)	(1,789)				(1,887)
Total cost of net revenue	(50,647)	(42,210)	(41,741)	(43,581)	(43,198)	(43,151)	(43,280)
Gross Profit	12,263	11,508	11,818	11,540	11,831	11,818	11,431
Research & development	(1,653)	(1,578)	(1,640)	(1,638)	(1,651)	(1,649)	(1,596)
Selling, general & administrative	(5,264)	(5,357)	(5,658)	(5,837)	(5,503)	(5,497)	(5,800)
Restructuring and other charges	(218)	(527)	(301)	(302)	-	-	(423)
Acquisitions and divestiture charges	(318)	(240)	(83)	(31)	-	-	(43)
Amortization of intangible assets	(228)	(350)	(318)	(446)	(446)	(446)	(363)
Russia exit charge	(23)						
Operating profit (EBIT)	4,559	3,456	3,818	3,285	4,231	4,226	3,206
Interest income, net	(235)	(519)	(539)	(473)	(473)	(473)	(510)
Profit before tax	4,324	2,937	3,279	2,812	3,758	3,753	2,696
Income taxes	(1,192)	326	(504)	(265)	(635)	(634)	(56)
Net income	3,132	3,263	2,775	2,547	3,123	3,119	2,640

Figure 2: Balance Sheet

x BALANCE SHEET						
Fiscal year	FY22A	FY23A	FY 24A	FY25E	FY26E	FY27E
Fiscal year end date	10/31/22	10/31/23	10/31/24	10/31/25	10/31/26	10/31/27
Current assets:						
Cash, cash equivalents and restricted cash	3,145	3,232	3,253	1,651	3,845	4,439
Accounts receivable, net of allowance for credit losses	4,546	4,237	5,117	4,938	4,710	4,928
Inventory	7,614	6,862	7,720	8,182	7,676	8,165
Other current assets	4,431	3,646	4,670	4,221	4,221	4,221
Total current assets	19,736	17,977	20,760	18,993	20,452	21,753
Property, plant and equipment, net	2,774	2,827	2,914	3,061	3,408	3,755
Goodwill	8,541	8,591	8,627	8,714	8,714	8,714
Other non-current assets	7,443	7,609	7,608	7,414	6,968	6,522
Total assets	38,494	37,004	39,909	38,182	39,542	40,744
Current liabilities:						
Notes payable and short-term borrowings	218	230	1,406	820	820	820
Accounts payable	15,303	14,046	16,903	15,586	15,647	15,553
Other current liabilities	10,668	10,212	10,378	10,059	10,059	10,059
Total current liabilities	26,189	24,488	28,687	26,465	26,526	26,432
Long-term debt	10,796	9,254	8,263	8,782	8,782	8,782
Other non-current liabilities	4,534	4,331	4,282	4,109	4,109	4,109
Commitments and contingencies	-	-	-	-	-	-
Stockholders' deficit:						
Preferred stock, \$0.01 par value (300 shares authorized; none issued)						
Common stock, \$0.01 par value (9600 shares authorized; 980 and 1092 shares)	10	10	9	9	9	9
Additional paid-in capital	1,172	1,505	1,778	2,176	2,693	3,210
Accumulated deficit	(4,492)	(2,361)	(2,676)	(2,719)	(1,936)	(1,157)
Accumulated other comprehensive income (loss)	285	(223)	(434)	(641)	(641)	(641)
Total stockholders' deficit	(3,025)	(1,069)	(1,323)	(1,175)	125	1,421
Total liabilities and stockholders' deficit	38,494	37,004	39,909	38,182	39,542	40,744

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Figure 3: Cashflow Statement

x CASH FLOW STATEMENT							
Fiscal year	FY22A	FY23A	FY 24A	FY25E	FY26E	FY27E	LTM
Fiscal year end date	10/31/22	10/31/23	10/31/24	10/31/25	10/31/26	10/31/27	7/31/25
Cash Flows From Operating Activities							
Net Income	3,132	3,263	2,775	2,547	3,123	3,119	2,640
Adjustments to reconcile NI to NCO:							
Depreciation & amortization	780	850	830	1,014	1,014	1,014	916
Stock based compensation expenses	343	438	452	517	517	517	517
Restructuring and other charges	218	527	301	302	-	-	423
Deferred tax on earnings	577	(923)	(122)	(67)	-	-	(258)
Defined benefits plan settlement gains							-
Other, net	475	(10)	(38)	103			89
Changes in operating assets and liabilities:							
Accounts receivables	1,285	278	(929)	239	228	(218)	(428)
Inventories	214	668	(852)	(497)	506	(489)	(570)
Accounts payable	(909)	(1,240)	2,840	(1,305)	60	(94)	1,492
Net investment on leases	(155)	(110)	(165)	(71)			(113)
Tax on earnings	(134)	198	(24)	(360)			(295)
Restructuring and other	(245)	(310)	(264)	(238)			(298)
Other assets and liabilities	(1,118)	(58)	(1,055)	53			(419)
Net cash provided by operating activities	4,463	3,571	3,749	2,237	5,449	3,849	3,696
Cash Flows from Investing Activities							
Investment in property, plan and equipment	(791)	(609)	(592)	(915)	(915)	(915)	(853)
Proceeds from sale of property, plant and equipment	26	16		-	-	-	-
Purchase of available-for-sale securities and other investment	(52)	(11)	(4)	(23)			(27)
Maturities and sale of available-for-sale securities and other investment	9	21	8	69			77
Collateral posted for derivative instruments	14			(343)			(283)
Payments made in connection with business acquisitions, net of cash acquired	(2,755)	(7)	(58)	(116)	-	-	(159)
Net cash used in investing activities	(3,549)	(590)	(646)	(1,328)	(915)	(915)	(1,245)
Cash Flows From Financing Activities							
Payments of short-term borrowings with original maturities less than 90 days, net	(400)	(10)		-			-
Proceeds of short-term borrowings with original maturities less than 90 days, net	-	-		-			-
Proceeds from debt, net of issuance costs	4,175	255	380	1,248			1,362
Payment of debt and other associated costs	(693)	(1,700)	(213)	(1,312)			(1,372)
Stock-based award activities and other	(95)	(99)	(74)	(113)			(120)
Repurchase of common stock	(4,297)	(100)	(2,100)	(1,250)	(1,250)	(1,250)	(1,250)
Cash dividends paid	(1,037)	(1,037)	(1,075)	(1,090)	(1,090)	(1,090)	(1,081)
Collateral (returned) withdrawn for derivative instruments	200	(200)		-			-
Settlement of cash flow hedges	79	(3)		6			6
Net cash used in financing activities	(2,068)	(2,894)	(3,082)	(2,511)	(2,340)	(2,340)	(2,455)
Change in cash, cash equivalents and restricted cash	(1,154)	87	21	(1,602)	2,194	594	(4)
Cash, cash equivalents and restricted cash BOP	4,299	3,145	3,232	3,253	1,651	3,845	3,253
Cash, cash equivalents and restricted cash EOP	3,145	3,232	3,253	1,651	3,845	4,439	3,249
Free Cash Flow (FCF)	3,672	2,962	3,157	1,322	4,534	2,934	2,843

Figure 4: Liquidity

x Liquidity Model						
	FY22A	FY23A	FY 24A	FY25E	FY26E	FY27E
Unrestricted Cash	3,145	3,107	3,238	1,648	3,842	4,436
Commercial paper	6,000	6,000	6,000	6,000	6,000	6,000
\$5.0 billion RCF due 05/26/2026	5,000	5,000	-	-	-	-
\$5.0 billion RCF due 08/1/2029	-	-	5,000	5,000	5,000	5,000
\$1 billion RCF due in 364 days	-	1,000	-	-	-	-
Uncommitted lines of credit	937	1,200	900	1,100	1,100	1,100
Total Liquidity	3,082	4,307	3,138	1,748	3,942	4,536
Less: letters of credit	-	-	-	-	-	-
Less: NTM debt maturities	(250)	-	(1,150)	(526)	(1,000)	(900)
Adjusted Liquidity	2,832	4,307	1,988	1,222	2,942	3,636

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Figure 5: Capital Structure

Capital Structure	FY22A	FY23A	FY 24A	FY25E	FY26E	FY27E
\$5.0 billion revolving credit facility expiring 08/1/2029						
\$1.1 billion uncommitted lines of credit						
7.75% sr notes due 4/1/2023	250.00					
2.20% sr notes due 6/17/2025	1,150.00	1,150.00	1,150.00			
1.45% sr notes due 6/17/2026	517.46	517.46	517.46	517.46		
1.45% sr notes due 6/17/2026	4.19	4.19	4.19	4.19		
1.45% sr notes due 6/17/2026	4.19	4.19	4.19	4.19		
3.00% sr notes due 6/17/2027	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	
4.75% sr notes due 1/15/2028	900.00	900.00	900.00	900.00	900.00	900.00
4.75% sr notes due 3/01/2029	491.12					
4.75% sr notes due 3/01/2029	491.12					
4.00% sr notes due 4/15/2029	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
5.40% sr notes due 4/25/2030	500.00	500.00	500.00	500.00	500.00	500.00
3.40% sr notes due 6/17/2030	503.45	503.45	503.45	503.45	503.45	503.45
2.65% sr notes due 6/17/2031	996.99	996.99	996.99	996.99	996.99	996.99
2.65% sr notes due 6/17/2031	3.01	3.01	3.01	3.01	3.01	3.01
2.65% sr notes due 6/17/2031	3.01	3.01	3.01	3.01	3.01	3.01
4.20% sr notes due 4/15/2032	676.17	676.17	676.17	676.17	676.17	676.17
5.50% sr notes due 1/15/2033	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00
6.10% sr notes due 4/25/2035	500.00	500.00	500.00	500.00	500.00	500.00
6.00% sr notes due 9/15/2041	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
	11,290.70	10,058.47	10,058.47	8,908.47	8,382.63	7,382.63
Check BS: STD + LTD	11,014.00	9,484.00	9,669.00	9,602.00	9,602.00	9,602.00

Figure 6: Credit Statistics

Credit Statistics	FY22A	FY23A	FY 24A	FY25E	FY26E	FY27E
Net debt/LTM Ebitda	1.53x	1.59x	1.46x	1.69x	1.10x	0.99x
Total debt/LTM Ebitda	2.11x	2.34x	2.16x	2.07x	1.60x	1.41x
EBITDA/Interest	22.72x	8.30x	8.62x	9.09x	11.09x	11.08x