

HP INC  
Form 10-Q  
June 05, 2018

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

(Mark  
One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended: April 30, 2018

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-4423

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HP INC.

(Exact name of registrant as specified in its charter)

Delaware 94-1081436  
(State or other jurisdiction of (I.R.S. employer  
incorporation or organization) identification no.)  
1501 Page Mill Road, Palo Alto, California 94304  
(Address of principal executive offices) (Zip code)  
(650) 857-1501  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of HP common stock outstanding as of April 30, 2018 was 1,610,512,633 shares.

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HP INC. AND SUBSIDIARIES

Form 10-Q

For the Quarterly Period ended April 30, 2018

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In this report on Form 10-Q, for all periods presented, “we”, “us”, “our”, “company”, “HP” and “HP Inc.” refer to HP Inc. (formerly Hewlett-Packard Company) and its consolidated subsidiaries.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I, contains forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of HP Inc. and its consolidated subsidiaries (“HP”) may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including, but not limited to, any projections of net revenue, margins, expenses, effective tax rates, net earnings, net earnings per share, cash flows, benefit plan funding, deferred taxes, share repurchases, foreign currency exchange rates or other financial items; any projections of the amount, timing or impact of cost savings or restructuring and other charges; any statements of the plans, strategies and objectives of management for future operations, including, but not limited to, our sustainability goals, the execution of restructuring plans and any resulting cost savings, net revenue or profitability improvements; any statements concerning the expected development, performance, market share or competitive performance relating to products or services; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on HP and its financial performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief, including with respect to the timing and expected benefits of acquisitions and other business combination and investment transactions; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include the need to address the many challenges facing HP’s businesses; the competitive pressures faced by HP’s businesses; risks associated with executing HP’s strategy; the impact of macroeconomic and geopolitical trends and events; the need to manage third-party suppliers and the distribution of HP’s products and the delivery of HP’s services effectively; the protection of HP’s intellectual property assets, including intellectual property licensed from third parties; risks associated with HP’s international operations; the development and transition of new products and services and the enhancement of existing products and services to meet customer needs and respond to emerging technological trends; the execution and performance of contracts by HP and its suppliers, customers, clients and partners; the hiring and retention of key employees; integration and other risks associated with business combination and investment transactions; the results of the restructuring plans, including estimates and assumptions related to the cost (including any possible disruption of HP’s business) and the anticipated benefits of the restructuring plans; the impact of changes in tax laws, including uncertainties related to the interpretation and application of the Tax Cuts and Jobs Act of 2017 on HP’s tax obligations and effective tax rate; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including, but not limited to, those discussed in this Quarterly Report on Form 10-Q, and in particular, the risks discussed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017, and that are otherwise described or updated from time to time in HP’s other filings with the Securities and Exchange Commission (the “SEC”). HP assumes no obligation and does not intend to update these forward-looking statements.

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Part I. Financial Information

ITEM 1. Financial Statements and Supplementary Data.

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## HP INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Earnings  
(Unaudited)

	Three months ended April 30		Six months ended April 30	
	2018	2017	2018	2017
	In millions, except per share amounts			
Net revenue	14,003	\$12,385	\$28,520	\$25,069
Costs and expenses:				
Cost of revenue	11,301	10,002	23,236	20,438
Research and development	356	314	703	610
Selling, general and administrative	1,260	1,090	2,429	2,107
Restructuring and other charges	57	140	88	203
Acquisition-related charges	45	20	87	36
Amortization of intangible assets	20	1	40	1
Total costs and expenses	13,039	11,567	26,583	23,395
Earnings from operations	964	818	1,937	1,674
Interest and other, net	(881 )	(64 )	(949 )	(145 )
Earnings before taxes	83	754	988	1,529
Benefit from (provision for) taxes	975	(195 )	2,008	(359 )
Net earnings	\$1,058	\$559	\$2,996	\$1,170
Net earnings per share:				
Basic	\$0.65	\$0.33	\$1.83	\$0.69
Diluted	\$0.64	\$0.33	\$1.81	\$0.68
Cash dividends declared per share	\$—	\$—	\$0.28	\$0.27
Weighted-average shares used to compute net earnings per share:				
Basic	1,630	1,688	1,640	1,696
Diluted	1,646	1,709	1,658	1,716

The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.

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## HP INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Comprehensive Income  
(Unaudited)

	Three months ended April 30 2018		Six months ended April 30 2017	
	2018	2017	2018	2017
	In millions			
Net earnings	\$1,058	\$559	\$2,996	\$1,170
Other comprehensive income (loss) before taxes:				
Change in unrealized components of available-for-sale securities:				
Unrealized (losses) gains arising during the period	(2	) 1	(5	) 4
Gains reclassified into earnings	—	—	(5	) —
	(2	) 1	(10	) 4
Change in unrealized components of cash flow hedges:				
Unrealized gains (losses) arising during the period	297	(70	) (254	) (239
Losses (gains) reclassified into earnings	276	(16	) 346	(87
	573	(86	) 92	(326
Change in unrealized components of defined benefit plans:				
Gains arising during the period	—	13	—	13
Amortization of actuarial loss and prior service benefit	13	17	25	37
Curtailments, settlements and other	—	3	1	3
	13	33	26	53
Other comprehensive income (loss) before taxes	584	(52	) 108	(269
(Provision for) benefit from taxes	(69	) 7	(4	) (7
Other comprehensive income (loss), net of taxes	515	(45	) 104	(276
Comprehensive income	\$1,573	\$514	\$3,100	\$894

The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.

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HP INC. AND SUBSIDIARIES  
 Consolidated Condensed Balance Sheets  
 (Unaudited)

	As of	
	April 30, 2018	October 31, 2017
	In millions, except par value	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$4,247	\$6,997
Accounts receivable	4,605	4,414
Inventory	5,557	5,786
Other current assets	5,024	5,121
Total current assets	19,433	22,318
Property, plant and equipment	2,061	1,878
Goodwill	5,941	5,622
Other non-current assets	4,652	3,095
Total assets	\$32,087	\$32,913
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Notes payable and short-term borrowings	\$1,617	\$1,072
Accounts payable	13,054	13,279
Employee compensation and benefits	897	894
Taxes on earnings	300	214
Deferred revenue	1,062	1,012
Other accrued liabilities	6,197	5,941
Total current liabilities	23,127	22,412
Long-term debt	4,494	6,747
Other non-current liabilities	6,329	7,162
Stockholders' deficit:		
Preferred stock, \$0.01 par value (300 shares authorized; none issued)	—	—
Common stock, \$0.01 par value (9,600 shares authorized; 1,611 and 1,650 shares issued and outstanding at April 30, 2018 and October 31, 2017, respectively)	16	16
Additional paid in capital	510	380
Retained deficit	(1,075 )	(2,386 )
Accumulated other comprehensive loss	(1,314 )	(1,418 )
Total stockholders' deficit	(1,863 )	(3,408 )
Total liabilities and stockholders' deficit	\$32,087	\$32,913

The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.



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## HP INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows  
(Unaudited)

	Six months ended April 30	
	2018	2017
	In millions	
Cash flows from operating activities:		
Net earnings	\$2,996	\$1,170
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	256	173
Stock-based compensation expense	148	123
Restructuring and other charges	88	203
Deferred taxes on earnings	(3,316 )	205
Other, net	198	21
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	38	289
Inventory	450	(272 )
Accounts payable	(277 )	26
Taxes on earnings	935	(177 )
Restructuring and other	(177 )	(97 )
Other assets and liabilities	707	(442 )
Net cash provided by operating activities	2,046	1,222
Cash flows from investing activities:		
Investment in property, plant and equipment		