Hewlett Packard Enterprise Company (HPE)

Earnings power has improved, but earnings quality remains in transition

FQ4 2026 Earnings Review
Period ended 2026-10-31
Reported 2026-11-23

1 | KEY RESULTS VS. CONSENSUS

Metric	Reported	Consensus	vs. Cons.
Revenue	$14.547 billion	$14.25 billion	+2.1%
Diluted EPS (adjusted)	$1.43	$1.28	+11.7%
SEGMENT REVENUE			
Cloud & AI	$11.257 billion		
Networking	$3.056 billion	$3.04 billion	+0.5%
Corporate Investments and Other	$234 million		

2 | GUIDANCE AND OUTLOOK

FY2027 revenue: $59.4 billion to $63.1 billion; growth 27% to 35% from 13% to 17%. Adjusted EPS: $5.05 to $5.35; adjusted operating profit: +23% to +30%; free cash flow: at least $5.5 billion, previously at least $5.0 billion. Q1 revenue: $14.0 billion to $14.6 billion; adjusted EPS: $1.30 to $1.40. Reaffirmed: consolidated adjusted operating margin 14% to 15%; Networking high-teens to low-20% revenue growth and mid-to-high 20% margin. Cloud & AI margin normalizes toward approximately 14% from 18.4%. Helios and Oracle are back-end loaded; storage growth moderates toward market.

3 | EARNINGS ANALYSIS

SERVER ECONOMICS DROVE THE BEAT. In the November 23 report, the much larger earnings beat reflects profitability rather than an extraordinary revenue surprise. Cloud & AI revenue of $11.257 billion generated approximately 94% of consolidated year-over-year revenue growth and approximately 114% of adjusted operating-profit growth. Adjusted operating margin reached 16.9%, exceeding consensus by 110 basis points. Management identified ASPs as the biggest growth driver and acknowledged extraordinarily high Cloud & AI margins.

CASH CONVERSION LAGGED EARNINGS. Q4 free cash flow declined approximately 0.3% to $1.915 billion despite adjusted operating profit increasing 107.9%. Property and equipment sale proceeds rose to $400 million from $126 million, supporting the flat headline. Gross investment in property, equipment and software increased to $807 million from $641 million. Fiscal 2026 adjusted operating profit excluded $743 million of stock compensation. Q4 GAAP earnings benefited from a lower tax rate and a business-sale gain; the small adjustment gap should not be extrapolated.

MARGIN NORMALIZATION STILL LIES AHEAD. The outlook upgrades revenue conversion and profit dollars, not the structural margin target. Management explicitly identified higher AI-server mix and costs increasing faster than pricing. Cloud & AI's Q1 margin outlook of 16% to 17% remains above the approximately 14% annual framework. Networking's promised profit acceleration must arrive before server pricing benefits dissipate. Back-end-loaded deployments depend on components, customer data-center readiness, integration and acceptance; strong pipeline does not eliminate fulfillment risk. Networking operating margin declined to 22.1% from 23.4% a year earlier, attributed principally to variable compensation and consistent with its approximately 22% outlook.

SUPPLIER CREDIT FUNDS EXPANSION. Inventory reached $14.094 billion; accounts payable reached $17.358 billion. Networking purchase commitments rose another 25% in Q4 after doubling sequentially in Q3.

BACKLOG IS NOT CASH REVENUE. Orders and backlog remain subject to rebookings, cancellations and fulfillment adjustments. The call did not quantify cancellation rates, deposits, acceptance milestones or payment terms.

GREATER CAPACITY, TRANSITION UNFINISHED. Debt declined to $18.645 billion while cash remained approximately $5.8 billion. Fiscal 2027 repurchases of approximately $3 billion would more than double fiscal 2026. HPE's earnings power has improved, but earnings quality remains in transition. A durable revaluation requires Networking growth, recurring revenue and cash conversion to replace unusually favorable server pricing.

4 | KEY READ-THROUGHS

MEMORY AND NAND: A LONGER PRICING CYCLE

Micron Technology (MU), SK hynix (000660), Sandisk (SNDK) | Positive | High sensitivity of earnings duration to sustained supply discipline and pricing

Constraints through at least the second half of calendar 2028 support favorable contract pricing and allocation toward higher-value server DRAM and enterprise SSDs. HPE corroborates Micron's expectation of much tighter conditions in fiscal 2027 and 2028. Announced fabrication capacity needs ramp and qualification time. The benefit concerns earnings duration, not a quantified supplier shipment upgrade; HPE disclosed no supplier allocation. Multiyear take-or-pay agreements can protect upstream revenue more than cancelable OEM orders.

SERVER HARDWARE: STRONG REVENUE DOES NOT ESTABLISH SUSTAINABLE MARGINS OR CASH CONVERSION

Dell Technologies (DELL), Super Micro Computer (SMCI) | Negative for peak-margin extrapolation and premium valuations; positive demand | Moderate-to-high negative; strong positive

Purchased-component pass-through can lift revenue without proportionate economic value added. Supermicro's revenue rose to $19.9 billion from $11.1 billion sequentially, while GAAP gross margin fell to 12.7% from 17.5% and operating cash flow was negative $434 million. Demand remains strong, but inventory, integration, acceptance and collection determine cash conversion. HPE's segment margin cannot be transferred to peers. Supermicro's adjusted gross margin improved year over year, precluding a blanket execution-deterioration claim.

MEMORY INFLATION CAN PRODUCE REVENUE GROWTH WHILE DESTROYING UNIT DEMAND

HP Inc. (HPQ), Dell (DELL) | Negative | High within PC operations; moderate consolidated

Higher memory prices can raise PC sales dollars while reducing affordability and physical shipments. HP Personal Systems revenue increased 18% while units declined 16%, with a 4.6% operating margin. Vendors must absorb costs or risk weaker demand by passing them through. Improved HP memory availability is an offset, not evidence of deteriorating procurement. Unit trends and price realization matter more than revenue alone.

OPTICAL NETWORKING: SCALE-ACROSS DEMAND SUPPORTS CIENA'S TRANSPORT EXPOSURE

Ciena (CIEN) | Positive | Moderate-to-high consolidated significance

HPE's triple-digit AI routing-order growth corroborates demand for transport between computing sites, not Ciena's share of HPE hardware sales. Ciena's cloud-provider revenue share reached 53%, growing 82% year over year; RLS and Waveserver each grew more than 55%. More inter-site traffic can require coherent interfaces, wavelengths and optical line systems. Copper-heavy connectivity inside racks does not negate optical demand between data centers. No specific HPE-related award is established.