HPE Q3 FY2024 Earnings

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CONTEXT

Hewlett Packard Enterprise (HPE) delivered a strong Q3 FY2024 earnings report, beating Wall Street estimates with its $7.7 billion in net revenue, up 10% year over year and exceeding guidance. The company saw growth across AI systems, hybrid cloud, and networking.

Operating margins remained strong, particularly in the server segment, driven by growth in AI system conversions and traditional servers. HPE also raised its full-year guidance, showing its confidence in delivering profitable growth amidst a dynamic market.
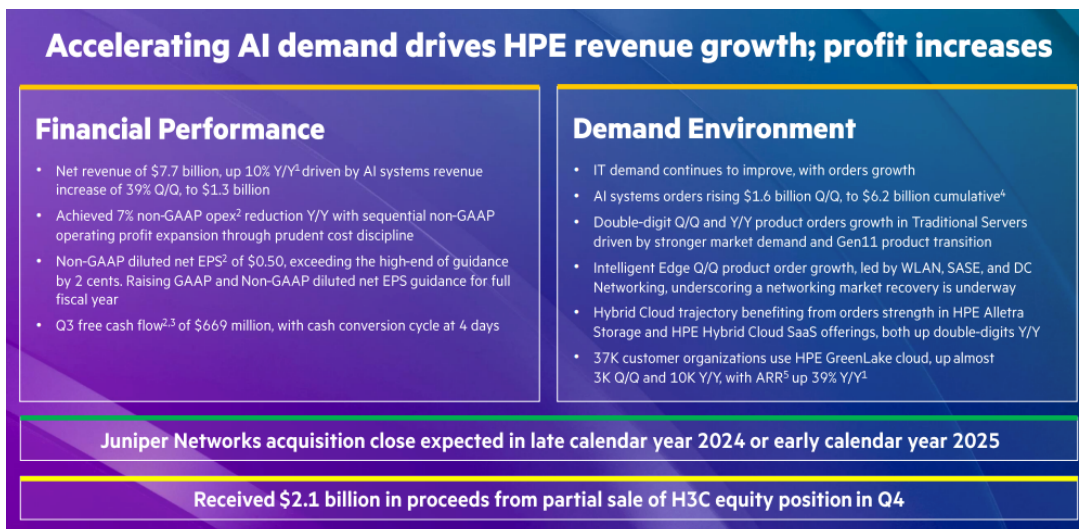

FIGURE 1: (SOURCE: HPE)

FINANCIAL PERFORMANCE

HPE's financial results for the third quarter exceeded expectations across multiple metrics:

Q3 FY24 business segment results

	Net Revenue (in millions)	Year-over-Year Revenue Growth[1]	Operating Profit $ (in millions)	Operating Profit % Revenue	Year-over-Year change in OP % Revenue
Server	$4,280	35%	$464	10.8%	0.7 pts
Intelligent Edge	$1,121	(23%)	$251	22.4%	(5.2) pts
Hybrid Cloud	$1,300	(7%)	$66	5.1%	(0.3) pts
HPEFS	$879	1%	$79	9.0%	0.8 pts
Corp. Inv. and Other	$262	7%	($4)	(1.5%)	6.6 pts
Hewlett Packard Enterprise[2]	$7,710	10%	$771[3]	10.0%[3]	(0.3) pts[3]

FIGURE 2: (SOURCE: HPE)

- **Net revenue**: $7.7 billion, a 10% year-over-year increase, at the high end of guidance.

- **Non-GAAP diluted net earnings per share (EPS)**: $0.50, $0.02 above the high end of guidance and up from $0.49 last year.

- **Free cash flow**: Over $660 million generated.

- **Operating margin**: 10%, driven by cost discipline and improved operating expenses.

- **AI systems revenue**: $1.3 billion, representing a 39% sequential growth from Q2.

- **Server segment revenue**: $4.3 billion, up 35% year-over-year, supported by strong AI system conversions and traditional server demand.

- **HPE GreenLake cloud**: Annualized revenue run rate grew 39% year-over-year to more than $1.7 billion.

NON-FISCAL HIGHLIGHTS

In addition to its strong financial results, HPE highlighted several key milestones in its strategic initiatives and partnerships:
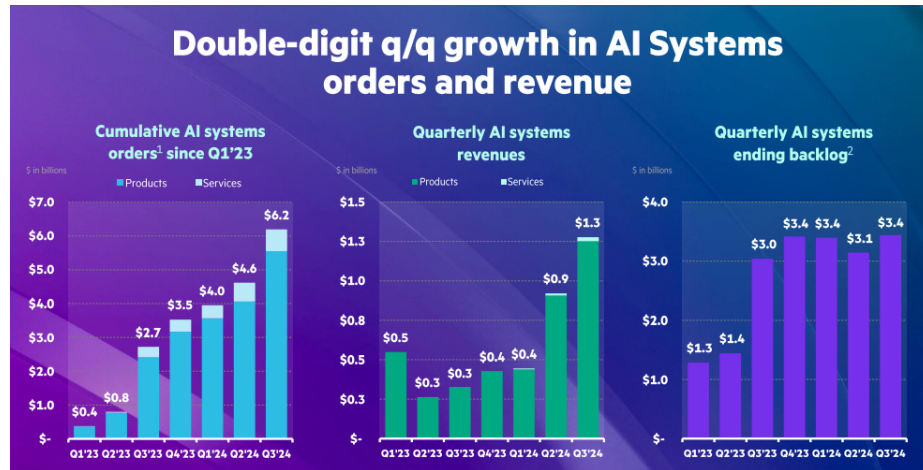
- **AI and Hybrid Cloud advancements**:

FIGURE 3: (SOURCE: HPE)

- o Expansion of HPE's AI portfolio, including the introduction of HPE Private Cloud AI for enterprise customers.

- o HPE's direct liquid cooling technology remains a differentiator in large AI system deployments.

- o HPE GreenLake cloud platform continues to expand, with 37,000 unique customers leveraging it for hybrid IT management.

- **Partnerships and acquisitions**:

  - o Pending acquisition of Juniper Networks, which will enhance HPE's edge-to-cloud vision with a comprehensive networking stack.

  - o Strengthened partnership with NVIDIA to co-develop AI solutions like HPE Private Cloud AI, which accelerates enterprise adoption of generative AI.

  - o Acquisition of Morpheus Data, adding multi-cloud automation and orchestration capabilities to HPE's portfolio.

GUIDANCE & OUTLOOK

HPE raised its full-year guidance based on strong performance to date and optimism about continued momentum in AI and hybrid cloud.

FIGURE 4: (SOURCE: HPE)

Key expectations include:

- **Revenue for Q4**: Expected between $8.1 billion and $8.4 billion.

- **Non-GAAP diluted net EPS**: Expected between $0.52 and $0.57 for Q4.

- **Full-year guidance**: EPS is expected to be between $1.92 and $1.97.

- **Free cash flow**: On track to achieve $1.9 billion for the full year.

- **Juniper Networks acquisition**: Expected to close by late 2024 or early 2025, anticipated to be accretive to operating margins and non-GAAP EPS in the first year.

ANALYSIS

HPE's Q3 earnings reflect strong execution of its strategy, particularly in AI, hybrid cloud, and networking:

- **AI leadership**: HPE's focus on large-scale AI infrastructure is paying off, as seen by the rapid growth in AI systems revenue and backlog. Its new HPE Private Cloud AI is a compelling solution for enterprises wanting non-cloud access to dedicated AI training resources.

- **Hybrid Cloud success**: The growth of HPE GreenLake shows that the company's strategy of transitioning traditional IT to a hybrid, cloud-native model is paying off. HPE was early in this space and continues to be the benchmark for non-cloud consumption-based infrastructure.

- **Strategic acquisitions**: HPE's upcoming acquisition of Juniper Networks and Morpheus Data will enhance its offerings in networking and cloud automation and further strengthen its edge-to-cloud strategy.

- **Competitive positioning**: HPE's strong performance in AI systems and servers, despite competitive pressures, is a solid demonstration of the leadership team's disciplined approach to pricing and cost management is yielding results.

The highlight for HPE's Q3 was the strong growth in AI systems revenue, which surged by 39% sequentially from Q2, reaching $1.3 billion. This shows HPE's successful execution in converting AI system orders into revenue.

The low point for HPE's earnings in Q3 was the decline in the Intelligent Edge segment, which saw a 23% year-over-year revenue decrease. This decline was explained as being primarily due to tough annual comparisons and slower recovery in campus switching products. Although there were sequential improvements, particularly in services and Secure Access Service Edge (SASE) products, the year-over-year performance in this segment lagged behind other areas of the business.

Looking ahead, HPE's raised full-year guidance. The company is on track to close the Juniper Networks acquisition by early 2025, a critical driver for its networking and edge-to-cloud capabilities. Its GreenLake platform continues to gain traction, and the company's software and services mix in ARR has increased, adding higher-margin growth to its portfolio.

Overall, HPE's results this quarter show a company capitalizing on the right trends—AI, hybrid cloud, and networking—but with challenges in certain segments that must be addressed. The outlook is positive, especially with AI set to be a significant growth driver.