

# Hewlett Packard Enterprise

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## Fiscal 2026 First Quarter Earnings Conference Call

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### **CORPORATE PARTICIPANTS**

**Paul Glaser**--*Head, Investor Relations*

**Antonio Neri**--*President and Chief Executive Officer*

**Marie Myers**--*Executive Vice President and Chief Financial Officer*

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## PRESENTATION

### Operator

Good day, and welcome to the Fiscal 2026 First Quarter Hewlett Packard Enterprise Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Paul Glaser, Head of Investor Relations. Please go ahead, sir.

### Paul Glaser

Good afternoon. I am Paul Glaser, Head of Investor Relations for Hewlett Packard Enterprise. I would like to welcome you to our fiscal 2026 first quarter earnings conference call with Antonio Neri, HPE's President and Chief Executive Officer; and Marie Myers, HPE's Chief Financial Officer.

Before handing the call to Antonio, let me remind you that this call is being webcast. A replay of the webcast will be available shortly after the call concludes. We have posted the press release and the slide presentation accompanying the release on our HPE Investor Relations Web page. Elements of the financial information referenced on this call are forward-looking and are based on our best view of our business and the external factors affecting us as we see them today. HPE assumes no obligation and does not intend to update any such forward-looking statements.

We also note that the financial information discussed on this call reflects estimates based on information available at this time and could differ materially from the amounts ultimately reported in HPE's quarterly report on Form 10-Q for the fiscal quarter ended January 31, 2026. Figures used in verbal remarks are rounded for ease of discussion. For more detailed information, please see our earnings materials as well as disclaimers relating to forward-looking statements that involve risks, uncertainties and assumptions. Please refer to HPE's filings with the SEC for a more detailed discussion of these risks.

For financial information that we are showing on a non-GAAP basis, we have provided reconciliations to the comparable GAAP information on our website. Please refer to the tables and slide presentation accompanying today's earnings release on our website for details. Throughout this conference call, all revenue growth rates, unless noted otherwise, are presented on a year-over-year basis. Unless otherwise noted, all financial metrics and growth rates discussed today are non-GAAP and EPS refers to non-GAAP diluted net earnings per share. Certain financial information featured in the presentation today has been normalized to include Juniper Networks results as of the beginning of HPE's fiscal year 2025. Antonio and Marie will reference our earnings presentation in their prepared comments.

With that, let me turn it over to Antonio.

### Antonio Neri

Thank you, Paul. Good afternoon, everyone. HPE started fiscal '26 with a strong first quarter, delivering revenue growth at the high end of our outlook range and record earnings per share, driven by a strong performance in Networking and a disciplined execution in Cloud & AI. Our Q1 results give us the confidence to raise our fiscal '26 outlook, which Marie will cover later in the call.

Q1 revenue was 9.3 billion, up 18%. We delivered record earnings per share of \$0.65, well above the high end of our outlook with strong Q1 free cash flow of \$708 million. Orders significantly

outpaced revenues, fueled by strong customer demand. We saw strong product orders across networking, servers and storage, driven by ongoing AI deployment, on-premises infrastructure modernization and some customer pull-ins due to ongoing commodity shortages and price increases.

GreenLake remains a critical differentiator for our software and services portfolio, delivering strong order bookings, customer adoption and ARR growth. Phase 1 of our Juniper integration is complete. We remain on track to achieve our fiscal '26 synergy targets. As we move to our second phase, we are focused on building a new networking market leader by aggressively executing our strategic product and software roadmap while driving revenue synergies through our go-to-market scale. We are excited about what comes next for our customers and our shareholders.

Before I provide our business segment highlights, I want to address how we are navigating the commodity shortages and inflationary cost environment impacting the industry. The IT market is facing a sharp acceleration in supply tightness and increasing component costs, most notably in DRAM and NAND. We expect elevated prices to persist well into 2027.

We are taking a series of distinct actions to address the current industry dynamics. First, we are focused on securing supply. We have expanded our long-term multiyear agreements with our key silicon and memory partners to secure the capacity needed to meet customer demand. Second, we are protecting our margins. We have adopted an agile pricing posture with price adjustments across the entire portfolio with shorter quote commitment cycles.

We have amended our quoting terms with the right to reprice existing orders for commodity cost increases between quoting and shipment. And third, we are proactively communicating with customers and channel partners, providing lead time and cost visibility, along with alternative configuration recommendations to shape demand.

DRAM and NAND now make up over half of the bill of material cost of a traditional server, and this share will continue to rise as component costs increases. As a result, we expect higher average unit prices in both our server and storage products. Networking is more insulated with memory comprising a significantly smaller portion of the bill of materials. Given the supply dynamics, our fiscal '26 strategy prioritizes higher-margin product orders, which have an impact on our AI system to revenue growth rate for the year.

Moving on to our Q1 results. As communicated at the Securities Analyst Meeting last October, we have streamlined our financial reporting structure into two primary segments. Our Networking segment combines Juniper Networks with our historical Intelligent Edge business, while the Cloud & AI segment includes Server, Hybrid Cloud and Financial Services.

I am incredibly pleased with our Q1 Networking segment performance and with the excellent progress we have made in integrating Juniper Networks. Our strategy is paying off. We delivered strong revenue growth, at the high end of our guidance, with orders growing faster than revenue. The Networking segment now represents nearly 30% of our HPE's total revenues and more than half of our total operating profits.

Networking revenue increased 152% and 7% on a normalized basis with orders up low-double digits driven by strength in wireless, data center switching and routing products with strategic wins and demand strength across the world. In campus and branch, customers are adopting our self-driving AIOps networking strategy and solutions. Normalized orders increased by high-single

digits. The Wi-Fi 7 transition is ramping quickly. We saw more than 10x increase in Wi-Fi 7 access points sold with devices connected to both our Mist and Aruba Central cloud platforms up 28%.

In data center switching, orders increased mid-40% on a normalized basis, driven by strong momentum in AI data centers and ongoing data center modernization efforts. AI data center builders and operators at scale appreciate our speed of execution, high-touch support and innovative congestion management capabilities. Our demand for our routing products was very strong, with orders increasing mid-20% on a normalized basis.

HPE now has the most competitive routing portfolio, spanning data center interconnect, AI on-ramp and Edge use cases. Our recently introduced MX301 router series is off to a great start with strong demand across all customer verticals. Driven by a strong order demand momentum in data center switching and routing products, we are now targeting \$1.7 billion to \$1.9 billion in cumulative networks for AI orders by the end of fiscal '26.

Our new combined networking R&D team continue to drive bold innovation. We showcased our leading networking capabilities last month at the Milano Cortina 2026 Winter Olympic Games, delivering the connectivity and security for athletes to access real-time performance data for broadcasters to stream video and for fans to connect with the Olympic application.

I experienced the IT operations firsthand at the games where our HPE experts were there with the Milano Cortina Olympic Committee IT staff, working to ensure everything performed at world-class levels. The Olympics serves as a powerful case study for other customers to see the value of our full stack AI native networking solutions and the power of our new combined Networking portfolio.

In advance of Mobile World Congress we announced our expanded vision for service providers as they modernize their infrastructure to take advantage of our AI with advancements across our networking servers and software portfolios. We introduced a powerful new line of routers, the new high-density, compact-modular PTX series. These routers will enable service providers to modernize their core networking WAN infrastructure to address the rise in data traffic demands driven by AI data center interconnect and inferencing scaling.

We also announced new server innovations to speed 5G and AI deployments, enhance security and streamline automation from the Edge through the core network. These solutions enable telecom operators to manage twice the amount of network traffic on a single server with the latest network security innovations.

Finally, I am pleased to announce that we have completed our network and sales integration in Q1 by merging our Juniper and Aruba sales teams into a single HPE networking sales organization. Our focus now is to scale the organization while continuing to improve our overall sales productivity. With the sales portion of the integration behind us, we are well positioned and energized for the years ahead, enabled by a best-in-class networking portfolio. HPE now owns the entire networking technology stack with the talent and go-to-market scale to create a new networking industry leader.

We will continue to focus on our networking priorities, including driving increased adoption of our highly differentiated AIOps self-driving networks to capture share and profitability in campus and branch, tapping into the large networks for AI investments that are happening in our industry with our world-class data center switching and routing offerings and claiming market leadership in key areas where the network and security are converging.

Moving on to Cloud & AI segment. Revenue declined 3% with operating margin dollars up 18%, driven by pricing and cost discipline. We expect average unit server and storage pricing to continue to increase as the year progresses. Q1 server orders grew low double digits, driven by higher demand for traditional servers as customers expand AI deployments, modernize infrastructure and accelerate orders due to industry supply challenges. Traditional server strength was partially offset by the timing of HPC and AI systems orders.

We entered Q2 with a record AI systems backlog of \$5 billion, primarily composed of enterprise and sovereign orders, and our sales pipeline remains multiples of our backlog. We are seeing more enterprises adopting agentic AI into their company's business workflows. Siemens Energy, one of the world's leading global energy technology companies, has recently selected HPE to provide infrastructure services to help engineers design and service gas turbines, which include AI inferencing.

In storage, we remain focused on executing our shift to our own IP portfolio strategy. Our storage Alletra MP products had another strong quarter with Q1 orders up 42%, marking our fifth consecutive quarter of double-digit year-over-year growth, driven by the installed base block transition and the accelerated adoption of our object-based platform. GreenLake continues to be a significant differentiator for HPE. In Q1, we approached 50,000 customers on our GreenLake cloud platform. Our ARR is on track to reach our \$3.5 billion target by the end of fiscal '26, driven by strong subscription services across networking, storage and cloud software and services.

Our unique portfolio of cloud management software, AIOps and our platform-based services underpin our hybrid cloud offerings, driving significant customer interest and building a strong sales pipeline. Our VM Essentials virtualization revenue grew sequentially for the third consecutive quarter, with high double-digit new logos growth year-over-year, driven by the escalating cost of legacy virtualization software. Our private cloud AI orders increased for the fourth consecutive quarter, supported by a substantial number of new customer wins across both enterprise and service providers.

Lastly, HPE FS delivered an exceptional quarter with record return on equity. During these high commodity cost cycles, HPE FS is a strategic advantage, enabling customers to maximize the value of their current IT infrastructure and provide access to certified pre-owned technology. And finally, we continue to make excellent progress in our Catalyst modernization and cost programs. We see great returns in deploying AI across our enterprise and remain on track to deliver our committed fiscal '26 savings targets.

In closing, we had a great start of our fiscal year. We delivered a strong first quarter performance while achieving our Juniper integration and Catalyst synergies commitments. While the industry is currently experiencing significant commodity supply and cost headwinds, we are raising our networking revenue, earnings per share and free cash flow outlook for fiscal '26. And we remain committed to our long-term fiscal 2028 targets, including at least \$3 in earnings per share and more than \$3.5 billion in free cash flow. We are well positioned to navigate today's market dynamics while aggressively pursuing our strategic priorities, including building a new networking industry leader.

I will now turn it over to Marie to walk through our Q1 financial details and our new fiscal '26 outlook.

**Marie Myers**

Thank you, Antonio, and good afternoon, everyone. I'm pleased with our performance this quarter as we delivered on our commitments with strong profitability across the board. Q1 was a strong start to fiscal 2026, reinforcing our confidence in our strategy and demonstrating our ability to execute in a dynamic environment.

We exceeded expectations on net earnings and free cash flow while continuing to invest with discipline for long-term value creation. This quarter was defined by three themes: first, strong operating discipline and favorable mix drove operating margins above our outlook in both Networking and Cloud & AI. Second, overall demand strengthened sequentially with orders exceeding revenue and backlog building, reflecting customer investment in data center modernization and anticipation of component cost increases. And third, Catalyst savings and Juniper-related cost synergies are tracking to plan, contributing to higher profitability.

Now let me walk you through the details of our Q1 performance. Revenue was 9.3 billion, up 18%, driven primarily by the inclusion of Juniper Networks and down 4% sequentially reflecting typical seasonality and lower AI systems revenue as expected. Gross margin improved sequentially to 36.6%, driven by continued pricing discipline and a favorable mix towards networking, which helped to offset higher commodity costs, particularly in memory.

Operating margin was better than expected at 12.7%. Margin strength in both Networking and Cloud & AI reflected our conscious pivot to focus on higher-margin, more profitable components of our business. Operating expenses also declined 5% sequentially, consistent with our outlook driven by strong cost discipline.

For the quarter, EPS was a record \$0.65 exceeding the high-end of our guidance range. GAAP EPS was \$0.31. I'm particularly pleased with our strong free cash flow of 708 million, a notable outcome as Q1 typically represents a seasonal cash flow outflow. Free cash flow growth is a core pillar of our strategic framework for value creation, and the results underscore the progress we've made on improving our working capital management and profitability.

Now let's turn to our segment results. Networking was again the standout performer, and the primary driver of our higher growth and margin profile. Revenue of 2.7 billion was up 7% on a normalized basis, in line with our expectations. Our expanded portfolio enabled HPE to capture strong demand in data center switching and routing. Order growth exceeded revenue and as Antonio mentioned, we now expect cumulative networks for AI orders to reach a range of 1.7 billion to 1.9 billion by fiscal year-end '26.

As we announced at our Securities Analyst Meeting under our new reporting structure that began in Q1, we are now reporting our Network segment revenue under two different views: product and customer. Within our product categories, data center networking and routing delivered 31% and 10% normalized growth, respectively, reflecting strong networks for AI demand.

Campus and branch grew 2%, fueled by accelerating adoption of Wi-Fi 7, while security declined 5%. On a customer vertical basis, enterprise revenue was up 2% on a normalized basis and service provider revenue was up 20%. Strength in service provider customers reflects investments in high-performance data center fabrics, routing capacity and interconnect to support both AI training and inference.

Networking operating margin was 23.7%, slightly above our guidance, supported by scale, pricing discipline and early Juniper synergies. Our actions are helping to offset higher component costs

while supporting our margin performance. We are improving our execution, capturing operational efficiencies and driving cost synergies as we work through the next phase of our integration. We successfully completed sales day 1 in Q1, marking an important milestone in integrating our HPE and Juniper sales organizations.

Moving to Cloud & AI, which includes our server, storage and Financial Services businesses. Q1 revenue totaled 6.3 billion, down 3%, consistent with our outlook. This performance primarily reflects timing of AI server revenue shipments offset by growth in the traditional server business and stable performance in storage and Financial Services.

As Antonio mentioned, in the face of higher commodity costs, we have taken decisive actions to protect margins. We implemented DRAM-related price increases starting in November 2025, shortened quote commitment cycles and are more tightly coordinated across our supply chain, pricing and sales organizations. In addition, we are actively steering demand towards lower memory configurations where appropriate, particularly across enterprise deployments.

With our strategy in place, we are dynamically passing through memory and component cost inflation, while protecting our margins and preserving profitability. These actions, coupled with strong cost discipline resulted in a better-than-expected operating margin of 10.2%, with operating profit up 4% sequentially and 18% year-over-year. Server revenue declined 3%, in line with expectations as strong AUP growth in traditional server was more than offset by the timing of AI shipments.

Despite the pricing actions we implemented, we saw continued strong demand, albeit inclusive of some pull-ins aimed at avoiding the impact of rising component costs. AI systems orders of 1.2 billion were largely enterprise-driven. Consistent with our strategy to focus on higher profitability, the mix of enterprise and sovereign has increased as a percentage of our cumulative orders since Q1 '23. Our AI server pipeline remains multiples of our backlog. We continue to expect AI demand and revenue to remain uneven this year, primarily due to some larger sovereign orders characterized by extended lead times with AI shipments expected to ramp in the back half of the year.

Moving to storage, which includes our storage, private cloud and GreenLake software solutions, revenue was up 1%. We continue to migrate customers to Alletra MP, which grew orders and revenue strong double digits year-over-year. We also continue to see strength in our private cloud offerings. As a reminder, we are exiting our third-party non-IP business to drive greater profitability. We have reclassified this revenue with prior periods adjusted accordingly.

Lastly, Financial Service revenue growth was roughly flat and generated an all-time high in return on equity of 27%. In addition, we are seeing incremental demand for Networking following the acquisition of Juniper. Going forward, we expect networking to be a growth engine for HPE FS as we capitalize on our broader portfolio. This quarter's results reflect strong progress across our Catalyst initiatives and Juniper synergies with both tracking to plan. These initiatives increase productivity, capture efficiencies and unlock operating leverage that drives sustained profitability. Our relentless execution in both drove strong profitability and keeps us on track to generate at least \$3 in EPS and more than \$3.5 billion in free cash flow by FY '28.

Our Catalyst initiative is delivering meaningful cost savings by automating critical operational capabilities. Across our global operations, we are aggressively deploying AI at scale to improve speed, cost and customer experience driving measurable and accelerating results as we continue to expand deployment. For example, we are using generative AI to surface technical insights

targeting a 90% reduction in search time for engineers and enabling faster, higher-quality service resolution. In addition, we are leveraging AI-optimized recommendations to simplify configuration workflows and improve accuracy. We are targeting 30% faster quote cycles, enabling customers to move from design to order with less friction.

We have also made solid progress against our Juniper synergy plan. We have driven key structural actions, including the achievement of our sales day 1 milestone. Our Networking sales team is now operating on a unified approach to engaging customers supported by harmonized fiscal '26 sales compensation plans that sharpen our go-to-market focus and execution to drive toward our growth outlook for the year. In addition, we're making good progress on integrating corporate-related functions to drive significant savings across our Networking business, including optimizing our supply chain strategy, real estate footprint and marketing expenses.

Turning to free cash flow. We delivered strong operating cash flow of 1.2 billion and free cash flow of 708 million in Q1, reinforcing our disciplined approach to financial management. Generating robust free cash flow and successfully integrating Juniper remain top priorities as we execute our fiscal 2026 strategy. Q1 benefited from a typical seasonality, which drove a five day improvement in our cash conversion cycle from last quarter. This was driven by an increase in days payable due to higher purchases to secure supply for future shipments and a slight decrease in days receivable due to favorable billings linearity and strong Juniper collections, largely offset by an increase in days of inventory due to higher purchases.

Inventory ended the quarter at 6.9 billion, down year-over-year, but up sequentially for assurance of supply purposes given industry-wide supply chain constraints, particularly in memory, and we saw our purchase commitments increase sequentially. We continue to demonstrate our commitment to a balanced capital allocation strategy. During the quarter, we returned 190 million through dividend to common shareholders and an additional 158 million via share repurchases. We improved our pro forma net leverage ratio from 3.1x after closing the Juniper acquisition to 2.6x, primarily due to a healthy cash position, a lower debt balance and improved profitability.

We continue to make good progress on our previously announced H3C transactions, which remain on track to conclude in the first half of calendar 2026. Before we get into the details of our guidance, let me briefly address the macro environment, which continues to be highly dynamic and uncertain. First, as Antonio noted, we are seeing unprecedented supply tightness and a rapidly rising component costs. We are taking decisive actions to mitigate these pressures and protect profitability.

Second, following the Supreme Court's recent tariff decision, we continue to monitor developments closely with greater clarity on tariff outcomes needed to fully assess the potential business impact. And third, we are closely monitoring our business in the Middle East, which remains highly fluid. Our guidance reflects our best estimates as of today, the net impact of the macro environment and our mitigation measures. We are confident in our ability to adapt as the environment evolves.

For FY '26, we are raising our EPS outlook range by \$0.05 to \$2.30 to \$2.50. We are also raising our GAAP EPS by \$0.40 to \$1.02 to \$1.22. We are making the following updates to our outlook, we are raising our full year Networking revenue growth to 68% to 73% on a reported basis or mid-to-high single-digit growth on a normalized basis, driven by our strength in data center networking and routing businesses. We are lowering our full year Cloud & AI revenue growth to mid-to-high single-digit growth from our prior mid-single-digit to low double-digit range.

As Antonio noted, given supply dynamics, our strategy for the remainder of the year prioritizes higher-margin product orders, which may have an impact on our AI systems revenue growth. We are lowering our OI&E outlook to a range of 540 million to 590 million from approximately 650 million previously, reflecting lower net interest expense expectations.

Lastly, we are increasing our free cash flow outlook to at least 2 billion, up from our prior range of 1.7 billion to 2 billion. We are maintaining our outlook for the remaining guidance metrics provided last quarter, which you can find in our earnings presentation. And from a modeling perspective, for the second half of the year, we expect Q3 to constitute our largest AI revenue quarter. Also, we expect profitability to be weighted towards Q4, consistent with our historical linearity.

For Q2, we expect total revenue will be between 9.6 billion to 10 billion, driven by strong demand. And for Networking, we expect revenue to grow 142% to 152% year-over-year on a reported basis or at the high end of our updated FY '26 normalized target growth range. This growth is driven by strength in our backlog. We expect revenue performance and synergy realization to help offset the impact of inflationary component costs while driving an operating margin rate in line with our full year guidance.

In Cloud & AI, we expect a sequential increase in our AI server revenue but still expect the majority of AI deals to ship in the second half of the year. Given the mix shift towards AI server and higher commodity costs quarter-over-quarter, we expect operating margins for Cloud & AI to be near the midpoint of our FY '26 target range. On a consolidated basis, we expect Q2 total operating expense to increase sequentially, driven by annual compensation increases and marketing expense. Combined with commodity cost increases, we expect our operating margin rate to be down quarter-over-quarter by more than typical seasonality. Consequently, we expect EPS between \$0.51 and \$0.55 and GAAP EPS between \$0.09 and \$0.13.

In closing, our Q1 results reflect disciplined execution, improving profitability and strong momentum in core business even as we navigate unprecedented commodity inflation and macro uncertainty. We remain focused on integrating Juniper and accelerating our transformation and operational efficiency to drive sustainable long-term value.

With that, I'll turn the call back to the operator to begin Q&A.

## **QUESTION AND ANSWER**

### **Operator**

Thank you. We will now begin the question and answer session. [Operator Instructions].

The first question will come from Wamsi Mohan with Bank of America. Please go ahead.

### **Ruplu**

Hi. Thanks for taking the question. It's Ruplu filling in for Wamsi today. Antonio, do you think the current environment is or will drive more customers to use HPE GreenLake? And you mentioned some pull-ins which areas were those in? And likewise, did you see any push-outs or lower demand as you raise prices in response to the component cost increases? Thanks.

### **Antonio Neri**

Yes. No, thank you for the question. So obviously, GreenLake, the cloud gives customers the flexibility to adopt an elastic model through our subscription services, including our GreenLake Flex, which includes all the consumption of the infrastructure on a demand basis. And this is

where our HPE Financial Services plays a key strategic role and as you saw from our results, HPE FS had a very, very strong quarter with a return on equity over 20%.

And during the cycles, the ability to offer pre-certified -- preowned certified products is very, very strategic. So the answer is yes, we should expect an ongoing adoption, not different, by the way, than we saw during the pandemic. So that's very important. We also announced some unique programs with HPE FS as well for financing during this transition time. As for demand, no, demand is very strong. Demand is very, very, very strong. There is no push-out. Last week, I was in Europe, where I met with many customers at Mobile World Congress, then I went to the U.K., and all of them understand the environment related to inflationary cost and all of them ask how we can get the product faster.

So reality is that demand is strong, whether it's driven by the projects or deploying AI, obviously, concern about the costs -- inflationary costs, but zero impact on demand at this point in time.

**Paul Glaser**

Thank you, Ruplu. Operator, next question, please.

**Operator**

The next question will come from Katherine Murphy with Goldman Sachs. Please go ahead.

**Katherine Murphy**

Thank you for the question. To ask a quick one on memory pricing, can you talk about how rising memory prices are reflected in the outlook for profitability in both your traditional data center business and then networking for fiscal '26? And if you could quantify what you're assuming for memory prices throughout the year, that would be helpful. And then to ask my follow-up, in terms of securing supply, do you have sufficient supply secured to meet the midpoint of the fiscal '26 guidance? Thank you very much.

**Antonio Neri**

Well, thank you, Katherine. I will start, and maybe, Marie, if you want to add anything, let me know. In our guide, the guide Marie just provided, we have contemplated our line of sight for the supply that we need to deliver that outlook range, both on the revenue side and on the profitability side. So when we provide outlook, it's because we have line of sight on our ability to go execute that. So that's point number one.

Point number two, on the memory cost increases, we will continue to see that throughout 2026. Today, against our order backlog and the demand momentum we see, we don't have enough supply to meet all the customer demand. But as I said earlier, we have line of sight for the outlook we provided.

And look, you will see the reports from the industry analysts. The reality is that between CQ4 and CQ1, you have from the industry triple-digits increase in pricing. And we continue to expect double digits as we go forward. And this is one of the things we did very well in Q1, as Marie commented earlier is that we took action on pricing early.

We actually increased prices in November and then in December and then in January, and we have done it multiple times. And that's why our focus is, first, secure supply to meet the customer demand. We have the supply to deliver the outlook. Second is obviously protect our margins, and we're doing that through pricing and through managing the mix.

We are, of course, favoring the high-margin businesses. Networking uses less memory, but it's a critical component of our demand shaping. And then obviously, traditional servers. And then in AI, we focus on really enterprise first and sovereign following that.

**Marie Myers**

Yes. Maybe I'll just add then in terms of the guide and how we thought about the memory pricing. As you know, we raised our guide actually. So we expanded the -- we rose it \$0.05, so \$2.30 to \$2.50. A comment about Networking and a comment about Cloud & AI.

From a Networking perspective, one thing to bear in mind is that some of the revenue and synergies that we've had as part of the programs we announced do help to offset some of those inflationary costs on Networking. So just bear that in mind.

And then as you think about Cloud & AI, we're really focused on prioritizing those higher-margin orders. So that's how we're managing it in each business, and all of that is reflected in our guide. And obviously, look, it's a prudent guide. And if we can do better, we absolutely will.

**Paul Glaser**

Very good. Thank you, Katherine. All right, operator, next question.

**Operator**

The next question will come from Simon Leopold with Raymond James. Please go ahead.

**Simon Leopold**

Thank you very much for taking the question. I wanted to see if you could talk about the topic around demand elasticity. Because I would think with IT equipment that with you raising prices to pass off the higher memory costs, we would see some more of a tailwind for your revenue growth rather than demand destruction. Could you help us understand in what respect of this is conservatism in your view versus how customers are behaving towards accepting the higher price points? Thank you.

**Antonio Neri**

Well, thank you, Simon. I think I should divide that question in two parts. One is the demand side. And I can tell you the demand continues to be very, very strong. There is no signs of slowdown at this point in time. Obviously, there is a question of unit and average unit price as we go forward.

But the reality is that with the density of the servers and the ability to process more data to the servers, customers are finding the right balance there, but the demand is very, very strong. On the ability to fulfill the demand, which translates into revenue, again, Marie and I put that in the guidance, and she just commented, prudent in many ways.

But look, we don't have enough supply for all the demand we are seeing and the backlog we have. However, in our guide, we factor the supply needed to deliver the outlook. And it's going to be interesting as we navigate the next few months. But as I said earlier, Simon, I met with a lot of customers, a lot of customers in Europe.

There was no one single customer that told me I don't want the product because now it's too expensive or higher priced than I thought. All of them said, okay, I understand the price increases. What we can do to shape the demand, maybe a different configuration, some may take a lower-end configuration to get the product. But it was all about speed to get the product, not the price.

**Marie Myers**

And maybe I'll just add, Simon, that, of course, there's going to be some impact from the increased pricing and -- on units, and that's really what we see more so in the second half of the year, just to follow-up on what Antonio said.

But I'd just clarify for Cloud & AI, probably similar to many others out there, we are expecting growth, particularly for our traditional server business on a net basis. So just remember that we did guide Cloud & AI to mid- to high-single digits from a revenue growth perspective as well.

**Antonio Neri**

And let's not forget, Simon, another part. When we sell traditional servers, obviously, it's healthy from the services attach perspective, which -- it may doesn't generate in-period revenue or 2026 revenue, but it's very important for '27, '28 and '29.

**Paul Glaser**

Thank you, Simon. Operator, next question please.

**Operator**

The next question will come from Amit Daryanani with Evercore ISI. Please go ahead.

**Amit Daryanani**

Good afternoon. Thanks for taking my question. I guess maybe I'll stay away from memory since everyone's asking about that and ask you about Networking a little bit. It's nice to see you folks taking up the Networking growth expectations for the year to mid- to high-single digits. Antonio, I'm hoping you can just talk a little bit more on what's driving this uptick. Is it AI? Is it campus? Is it something with Juniper's routing business on -- scale across? I'd love to just understand what's driving this uptick here.

And then maybe just related to Networking, you folks did nearly 24% operating margins in Q1, which is ahead of what you folks were initially expecting. What do you think is resulting in the guide for the full year to be low 20%? Why are you assuming a degradation of those margins given you still have some more synergies ahead of you versus not? So just touch on Networking a bit, that would be great. Thank you.

**Antonio Neri**

So, I will answer the first part, and then Marie can talk about the margins for Networking. I think it's two parts, Amit. One is demand for our products. I mean, very clear. I mean, we have a world-class portfolio with additional Juniper and the combination with Aruba. And so campus and branch, our value is -- differentiation is in the self-driving networks. I saw that at the Olympics.

I have to tell you; it was very impressive to see how the teams were operating using AI to manage a very complex network over multiple locations in Italy with different events taking place and a massive amount of scale.

But the CIO told me I'm doing this with less than 20 people, which was remarkable, remarkable. And our team was very small, just enabling them to understand how to use these AI technologies, and it went flawless. So that's an example. So we grew high single digits in the campus and branch.

Wi-Fi 7 there, I don't know if you caught it, 10x. We sold 10x more access points on the Wi-Fi 7 than a year ago. And obviously, it's driven by the experience we can provide. But then on the data

center side, on the AI build-out, we had a tremendous order intake with data center switching, which is the QFX fabric, mid-40%. And so that's a remarkable amount of order intake.

And then routing, which generally tends to be a much lower growth, in the past was obviously aligned with the telcos, now it's all aligned to data center interconnect and AI on-ramp grew mid-20%. So the combination of data center switching and routing, which is what we call networks for AI. Now we expect that to grow to 1.7 to 1.9 in cumulative orders, up from the 1.5.

And the question there is our ability to convert all of that as we go forward because of the supply constraints, but demand continues to be very strong. And then look, the amount of innovation -- I'll give you an example of a breakthrough innovation. The new PTX router, which is half size of a rack, can manage 16 million, 1-6, concurrent sessions.

Think about if London and New York, all the population will watch a Netflix movie at the same time, that router will be able to handle it. So think about the power of connecting data center with that level of innovation. So we have an amazing product at the right time with the right talent.

And then the second part of the confidence to raise the guidance is the fact that the Juniper integration is on track. I think, 8 months in, the team has done a remarkable job. We onboarded almost 10,000 employees. We announced the strategy, we announced the products, we introduced many, many products. And we completed the sales integration of the workforce.

So now we are focused on driving revenue synergies across the entire portfolio because we believe there is more opportunity there as we integrate the networking product with the rest of the stack.

### **Marie Myers**

And just to sort of add on, on the margins, Amit. So obviously, really pleased with the results that we had in Q1, 23.7. So it was above our guide in terms of the operating margin. And it was a combination of reasons, due to the scale that you're starting to see in the business that Antonio had referred to, we had good pricing discipline and early Juniper synergies that came through.

Now what I would just add to sort of bear in mind, as Antonio mentioned, we're just through Phase 1 of the integration itself. So we've sort of got sales day 1, but there's still more to do at this point in time. So it is the prudent thing to do at this point to keep our range, which is the low 20%. And honestly, if we can do better, as we've demonstrated, we absolutely will Amit.

### **Amit Daryanani**

Thank you.

### **Antonio Neri**

Thank you, Amit.

### **Paul Glaser**

All right, operator. Next question, please.

### **Operator**

The next question will come from Erik Woodring with Morgan Stanley. Please go ahead.

### **Erik Woodring**

Great, guys. Thank you very much for taking my questions. I wanted to maybe touch back on the demand environment. And maybe Marie, if we look back over the last 5 years, revenue has typically declined from January into the April quarter by about 3% for legacy HPE and similar trends for Juniper. You're guiding to 5% sequential revenue growth in the April quarter.

And in response to one of the earlier questions, Antonio mentioned, customers, very active or trying to get product faster given future supply risk. And so I guess my question is, is it, shouldn't we classify that as pull-forward? Or how do you maybe delineate between strong demand that has longevity through the year and some of these customers just trying to get product quickly because of the risk of supply in the second half? Thanks so much.

### **Antonio Neri**

Well I'll maybe start. So look, I think we are redefining our seasonality here a little bit, right? You saw that in Q1 a little bit with our free cash flow and efficiency of the working capital now having Juniper and the work we have done with Marie and the team. But Q2, obviously, you start seeing the benefits of having Juniper and the strong momentum in the network for AI, which obviously is helping as well.

I think it's a reflection that we have been taking a large amount of orders now for a number of quarters. And therefore, the ability to convert the orders moves through the process. But that range is actually in line to what we had in our original guidance that we provided at SAM in terms of the year seasonality. And then in the back half, we're going to have the AI systems conversion come in through the process.

So look, there is, of course, demand pull-in from some customers but there is also a lot of demand used for deployment, deployment of AI. I look at two key metrics in enterprise, particularly. One is adoption of the AI in the business workflow. We see the adoption of agentic AI. Many European customers want to do that on-prem, very clear. And GreenLake disconnected is a big, big differentiator for us. And number two is the growing in inferencing. The inferencing portion of AI is growing very, very rapidly, and that aligns really nice with our portfolio, particularly with Juniper and servers. I've met many of the telcos.

They are really focused on the AI inferencing. And many of them also are going to play a sovereign role because they have the trust from the government to become the AI cloud in many of these countries where they are going to build some of the Gigafactories. But in general, I will say, driven by the demands of AI, driven by the demands of modernizing their infrastructure for data and then deploying AI on-premise is going to play a role for us in addition to networks for AI to build large-scale data centers.

### **Marie Myers**

Just to sort of reinforce what Antonio said, Erik, I mean, at this point, I sort of use as a guidepost that normal seasonality won't really apply to this year. And I think it's a combination of both the deal itself, the timing when we close that plus all the component dynamics. So I think what would be important to put in your models is that Cloud & AI revenue is going to be pretty much weighted to the second half. And that's really due to what I think I said on the last call, which is more the timing of some of those server shipments. And frankly, we factored all these dynamics into the guide that we put forward today as well.

### **Antonio Neri**

That's right.

**Paul Glaser**

Thank you, Erik. Next question, please.

**Operator**

The next question will come from George Notter with Wolfe Research. Please go ahead.

**George Notter**

Hi, guys. Thanks a lot. I just wanted to come back to a question earlier, I didn't hear the answer. Did you guys give us the assumption for full year revenue associated with the pull-forwards? And how much incremental might you get this year also based on higher pricing associated with memory? I'm just trying to sort of break down the impacts here in terms of their constituent pieces. Thanks.

**Marie Myers**

Now look, George, I mean, at this point in time, we haven't quantified the pull-forwards. I think we gave clarification on our revenue ranges, which for both businesses were actually in the mid to high-single digits for the year. So that's the way I'd be anchoring your model.

**Paul Glaser**

Okay. Next question, please.

**Operator**

The next question will come from Samik Chatterjee with JPMorgan. Please go ahead.

**Samik Chatterjee**

Hi. Thanks for taking my question. Antonio, if I can ask you to drill down a bit into the networks for AI orders that you're referencing, which you're raising today, the \$1.7 billion to \$1.9 billion. Is that really just expansion with the existing customers on that front? Or are there any specific sort of wins with maybe hyperscale customers that sort of are in, helping you in relation to those orders? Just curious about sort of the drivers there. And as we look at that target, how should we think about the mix between data center networking relative to routing in your definition of networks for AI? Thank you.

**Antonio Neri**

Yes, Samik. It's a combination of existing customers buying more, but then also getting new customers on our footprint. And so it's a combination of service providers, neoclouds. And also now we start seeing the benefits of getting access to our server go-to-market because we are actually making entrances or introductions to those customers and be able to have those conversations in a more integrated way. So that's what we see today. And the pipeline is very, very strong, which give us the confidence to raise the outlook to \$1.7 billion, \$1.9 billion. But it's a combination of both existing customers and new customers as we go forward. In terms of the other, we don't provide that level of guidance at this time.

**Paul Glaser**

Thank you, Samik. Next question, please.

**Operator**

The next question will come from Aaron Rakers with Wells Fargo. Please go ahead.

**Aaron Rakers**

Yes, thanks for taking the question. Kind of just going back on a lot of the other questions. I'm curious, I mean, we all talk about memory pricing, but there's also been a lot of discussion around just tightness on server CPUs and just the demand outstripping supply. So I'm curious, Antonio, how would you characterize the lead times that you're seeing on traditional servers today relative to what they were, let's say, 3 months, 6 months ago? And I think in your preamble, you alluded to like you've changed some of the dynamics around order contractual things, pricing, etcetera. Can you just walk us through again what exactly you changed to kind of pass through pricing and maybe provide some stickiness to the orders that you're seeing?

**Antonio Neri**

Yes, sure. On the CPU side, less constrained, but constrained. And there because of our very diversified CPU portfolio, obviously, we have one of the broadest CPU set of platforms with the ProLiant business, we are able to steer demand, although there may be one or two SKUs more constrained than others. I'm significantly less concerned about the CPU. But if you have the CPU, you don't have the memory, you're kind of stuck in the middle, right? So right now, less concerned about the CPU, but there is active demand shaping to the right socket based on the type of workload the customer wants to run on it.

In terms of the pricing itself, right? So look, on the terms, right? Look, we have taken a very agile posture where basically we have significantly shortened our quoting cycles in terms of commitments, and we have reserved the right to increase the price from the time we quoted the product to the time we ship it.

And so the customer has always the right to cancel the order before it gets shipped. But once again, when I had this discussion last week with all our European customers, they all understood that dynamic. What they want is lead time transparency, clarity of the price increase. Think about it this way, Aaron, the way I say it is like what is the memory cost and the NAND surcharge, right?

So if you quoted X, now the cost is Y, what is the difference between X and Y? So we are very transparent on what the surcharge for the increase is. And that's what we're doing. That's -- look, I mean, I always said our quick no is better than a long yes. And fundamentally, that level of communication is super important as we navigate this environment.

**Paul Glaser**

Thank you, Aaron. Next question, please.

**Operator**

The next question will come from Tim Long with Barclays. Please go ahead.

**Tim Long**

Thank you. I wanted to touch on kind of the campus and branch business for a little bit. A lot going on there as well. It's been really strong. It looks like a little bit, at least on the revenue side, deceleration this quarter. But obviously, the Wi-Fi 7 sounded like it was really strong. So could you just talk a little bit about the offsets?

Are we seeing anything different in win rates? Or are there just any other type of delays or push outs. I think the orders were a little better than revenues. Just curious about the growth rate in that business and what you're seeing from a competitive landscape?

**Antonio Neri**

Sure, Tim. As I said, our campus and branch order intake was high-single digits this quarter. And that's obviously on a normalized basis, right? And so we believe that customers now have the clarity, which path to follow between Juniper Mist and Aruba Central. And we did a very good job laying the foundation because we now have every possible deployment capability.

And in Europe, obviously, they favor more sovereign disconnected offers versus a cloud-connected offer. But when there is a cloud-connected opportunity, we lead with Juniper, Mist. When there is an on-prem virtual private cloud or disconnected requirement, we'll lead with Aruba Central.

And as you recall, last December, at our HPE Discover event, we launched what we call the dual-boot infrastructure with our Wi-Fi 7. And we saw a 10x, 10 times increase this quarter in access points, which means customers resonate with our AIOps self-driving network in each of the platforms. And we introduced also new AI agentic approaches to both platforms as a part of the combined innovation.

The dynamic there is that customers, obviously, they are moving forward. We announced a number of strategic deals. For example, another interesting win, although it's in the sports space, Atletico Madrid is going to revamp the entire venue, including the space outside the stadium using our offerings. But that's one example. As I talked before, the entire Olympic games run on the Juniper Mist infrastructure.

But there are other ones in Europe that in the case of Atletico Madrid or others, they're using Aruba Central. So we have the ability to compete against anyone in every deployment model. And we expect this to continue as we go forward because now, we have one integrated sales organization, all selling the same portfolio and all compensated for selling the same offers. So now I'm excited about scaling this and driving revenue synergies and then sales productivity.

**Paul Glaser**

All right. Thank you, Tim. Operator, last question please.

**Operator**

The last question will come from Asiya Merchant with Citigroup. Please go ahead.

**Asiya Merchant**

Great. Thanks for squeezing me in guys. Just if I can, on AI with the majority of the backlog here in the second half, a lot of it from enterprise, sovereigns. Just high level, how should we think about the margins in this segment, overall for Cloud & AI progressing? And if you could provide any color on the attach rates that you're seeing with those AI revenue backlogs in addition to the server revenues that you're recognizing? Thank you.

**Marie Myers**

Good afternoon. Yes. In terms of just the margins for AI, the right way to think about it is in terms of the guide that we've given. So I think we had obviously a very strong Q1 here for the whole segment itself. But as I mentioned in my prepared remarks, we expect Q2 to be towards the midpoint of the range. And then throughout the year, we expect that to be back into about 7% to 9%.

So obviously, at this point in time, those ranges are going to be impacted to a large extent by the shipment timing of both the deals themselves and the types of deals that we have in the quarter. So as more AI revenue in the quarter, we expect to see a little bit more pressure on the margin.

So that's the way I'd be thinking about the correlation between the AI revenue and the margins themselves for the Cloud & AI segment.

And I'd say, look, overall, we're very confident about the full year margin range for the whole segment of 7% to 9%. And the key thing for us, as you've heard us talk about today is really focusing on protecting those margins and taking all the actions that we need to really navigate the commodity prices that we've spoken about.

## **Conclusion**

### **Antonio Neri**

All right. Well, thanks, everyone. We will follow offline with each of you as part of the normal process. I want to thank you for joining the call. I will end where I started, which is basically we had a very strong start of fiscal year '26. You see that the combination of Juniper and HPE is paying off. The Networking business outperforms -- outperformed our own expectations. We are very excited about what's happening there from an innovation and momentum perspective.

Demand continues to be very strong above -- both segments. But we are adjusting our strategy to make sure we focus on delivering profitable growth because now we have a great portfolio. And also, we are also focusing on managing our working capital in an efficient way. And one of the things that you see we are raising our free cash flow to at least \$2 billion while we're paying down the debt. And I think we will be able to do that in -- even despite the environment we are navigating through today. So again, a great start. We raised our guidance, and we expect that we will deliver against this commitment like we have done in the previous quarters. So thank you again for your time.

### **Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.