

Hewlett-Packard Enterprise

Media reports potential acquisition of Juniper Networks

Reiterate Rating: NEUTRAL | PO: 19.00 USD | Price: 17.72 USD

WSJ reports talks with JNPR

After market close on Jan 8th, the Wall Street Journal reported that HPE is in advanced talks to buy Juniper Networks (ticker: JNPR, covered by Tal Liani) for about \$13bn. HPE has been successful with recent M&A including Aruba. A \$13bn deal would imply that HPE is paying approx 2.3x EV/Sales, 10x EV/EBITDA and about 14x EV/FCF (HPE trades at 1x EV/Sales, 5x EV/EBITDA and about 14x EV/FCF). While a JNPR deal would deviate from the strategy to shift to as-a-Service, and the AI server narrative we see some merits in providing access to new channels, customers and a larger footprint in Networking. We maintain our Neutral rating as positives of long-term mix shift to higher-margin revenue is balanced by the near-term weaker Enterprise spend environment.

Rough accretion math

We assume a potential deal close of end of C24 (assuming all regulatory approvals) and run our accretion math on C25. For a \$13bn deal we assume HPE can use \$2bn of cash on the balance sheet and also the proceeds from the H3C transaction ~\$3bn post-tax. We assume two scenarios (1) all cash (Fig 1), and (2) 75% cash and 25% stock (Fig 2). We assume about ~400mn in OpEx synergies (50% of G&A and 20% of S&M on a JNPR basis). Our scenarios yield strong accretion in the all cash scenario of 24% and in the 25% stock scenario yield 14% accretion (same cost synergies). We are not including any revenue synergies but are also not including any penalty for portfolio overlap (around 20%).

How about strategic rationale?

Roughly 35% of Juniper's revenue is attributed to routing (sold mostly to Service Providers (SP) and Data Center Interconnect of Cloud). 2024 will likely experience pressure on SP spending but we believe growth will return to the long-term growth of low-single digits per annum after the backlog related headwinds abate. Security accounts for approximately 12% of Juniper's revenue, with firewall as the largest security segment, accounting for 43% of security revenue. Given the company's narrow focus on SP customers and high-throughput firewalls, it remains to be seen whether Juniper's security segment is something HPE would keep over time. 20% of Juniper's revenue is predominantly tied to switching and wireless. We see overlap between HPE Aruba and Juniper Mist. Services accounts for the remaining 33% of revenue.

| Estimates (Oct) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|-------|-------|--------|-------|-------|
| EPS | 2.01 | 2.15 | 1.88 | 2.11 | 2.20 |
| GAAP EPS | 0.66 | 1.54 | 1.88 | 2.11 | 2.20 |
| EPS Change (YoY) | 2.6% | 7.0% | -12.6% | 12.2% | 4.3% |
| Consensus EPS (Bloomberg) | | | 1.92 | 2.11 | 2.30 |
| DPS | 0.48 | 0.48 | 0.52 | 0.52 | 0.52 |
| Valuation (Oct) | | | | | |
| P/E | 8.8x | 8.2x | 9.4x | 8.4x | 8.1x |
| GAAP P/E | 26.8x | 11.5x | 9.4x | 8.4x | 8.1x |
| Dividend Yield | 2.7% | 2.7% | 2.9% | 2.9% | 2.9% |
| EV / EBITDA* | 6.5x | 6.2x | 6.2x | 5.7x | 5.4x |
| Free Cash Flow Yield* | 9.1% | 9.7% | 8.3% | 9.4% | 10.1% |

* For full definitions of *IQmethod*SM measures, see page 8.

08 January 2024

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Stock Data

| | |
|--------------------------------|-----------------------|
| Price | 17.72 USD |
| Price Objective | 19.00 USD |
| Date Established | 28-Nov-2023 |
| Investment Opinion | B-2-7 |
| 52-Week Range | 13.66 USD - 18.14 USD |
| Mkt Val (mn) / Shares Out (mn) | 22,732 USD / 1,282.9 |
| Free Float | 99.7% |
| Average Daily Value (mn) | 218.07 USD |
| BofA Ticker / Exchange | HPE / NYS |
| Bloomberg / Reuters | HPE US / HPE.N |
| ROE (2024E) | 11.0% |
| Net Dbt to Eqty (Oct-2023A) | 38.1% |
| ESGMeter TM | High |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

S&M: Sales & Marketing

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iQprofileSM Hewlett-Packard Enterprise

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 6.6% | 6.9% | 6.5% | 6.7% | 6.6% |
| Return on Equity | 13.4% | 13.8% | 11.0% | 11.2% | 10.6% |
| Operating Margin | 10.2% | 10.8% | 10.7% | 11.3% | 11.6% |
| Free Cash Flow | 2,073 | 2,202 | 1,896 | 2,138 | 2,287 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--------------------------|-------|-------|-------|-------|-------|
| Cash Realization Ratio | 1.7x | 1.6x | 2.0x | 1.9x | 1.9x |
| Asset Replacement Ratio | 1.0x | 0.9x | 1.2x | 1.1x | 1.0x |
| Tax Rate | 14.0% | 14.0% | 14.0% | 14.0% | 14.0% |
| Net Debt-to-Equity Ratio | 41.7% | 38.1% | 27.3% | 19.2% | 11.9% |
| Interest Cover | 16.1x | 20.2x | 12.0x | 17.1x | 17.8x |

Income Statement Data (Oct)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|--------------|--------------|---------------|--------------|--------------|
| Sales | 28,496 | 29,135 | 29,351 | 30,137 | 30,704 |
| % Change | 2.6% | 2.2% | 0.7% | 2.7% | 1.9% |
| Gross Profit | 9,667 | 10,273 | 10,342 | 10,606 | 10,793 |
| % Change | 2.6% | 6.3% | 0.7% | 2.6% | 1.8% |
| EBITDA | 5,506 | 5,761 | 5,805 | 6,328 | 6,652 |
| % Change | 1.1% | 4.6% | 0.8% | 9.0% | 5.1% |
| Net Interest & Other Income | 72 | 147 | (260) | (200) | (200) |
| Net Income (Adjusted) | 2,664 | 2,832 | 2,471 | 2,769 | 2,891 |
| % Change | 2.4% | 6.3% | -12.8% | 12.1% | 4.4% |

Free Cash Flow Data (Oct)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|---------------|--------------|---------------|--------------|--------------|
| Net Income from Cont Operations (GAAP) | 2,664 | 2,832 | 2,471 | 2,769 | 2,891 |
| Depreciation & Amortization | 2,480 | 2,616 | 2,672 | 2,908 | 3,089 |
| Change in Working Capital | (570) | (1,032) | (165) | (375) | (470) |
| Deferred Taxation Charge | (249) | (67) | 0 | 0 | 0 |
| Other Adjustments, Net | 268 | 79 | 0 | 0 | 0 |
| Capital Expenditure | (2,520) | (2,226) | (3,082) | (3,164) | (3,224) |
| Free Cash Flow | 2,073 | 2,202 | 1,896 | 2,138 | 2,287 |
| % Change | -44.3% | 6.2% | -13.9% | 12.7% | 7.0% |
| Share / Issue Repurchase | 0 | 0 | 0 | 0 | 0 |
| Cost of Dividends Paid | (631) | (629) | (684) | (684) | (684) |
| Change in Debt | (596) | (209) | 0 | 0 | 0 |

Balance Sheet Data (Oct)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents | 4,163 | 4,270 | 5,896 | 7,350 | 8,953 |
| Trade Receivables | 4,101 | 3,481 | 3,907 | 3,985 | 4,490 |
| Other Current Assets | 12,242 | 11,197 | 11,442 | 11,315 | 11,381 |
| Property, Plant & Equipment | 5,784 | 5,989 | 6,663 | 7,183 | 7,582 |
| Other Non-Current Assets | 30,833 | 32,216 | 32,216 | 32,216 | 32,216 |
| Total Assets | 57,123 | 57,153 | 60,124 | 62,049 | 64,622 |
| Short-Term Debt | 4,612 | 4,868 | 4,868 | 4,868 | 4,868 |
| Other Current Liabilities | 18,562 | 17,014 | 17,520 | 17,096 | 17,197 |
| Long-Term Debt | 7,853 | 7,487 | 7,487 | 7,487 | 7,487 |
| Other Non-Current Liabilities | 6,187 | 6,546 | 6,546 | 6,546 | 6,546 |
| Total Liabilities | 37,214 | 35,915 | 36,421 | 35,997 | 36,098 |
| Total Equity | 19,909 | 21,238 | 23,703 | 26,052 | 28,524 |
| Total Equity & Liabilities | 57,123 | 57,153 | 60,124 | 62,049 | 64,622 |

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

IT Hardware

Company Description

HP Enterprise consists of six segments: 1) Compute (provides servers), 2) HPC&AI (portfolio includes HPE Apollo and Cray), 3) Storage, 4) Intelligent Edge (enterprise networking and connectivity for campus and branch environments, operating under the Aruba brand), 5) Financial Services (enables flexible IT consumption models), and 6) Corporate Investments and Other (incl. HP labs and business incubation projects). Through GreenLake, HPE offers most of its products as-a-Service.

Investment Rationale

Our Neutral rating is based on risk/reward balance where positives including mix shift to high-margin software/SaaS revs, is balanced by risk from an economic slowdown, headwinds to on-premise deployments from customers moving to cloud, software assets relatively small vs. peers and increased competition.

Stock Data

Average Daily Volume 12,306,272

Quarterly Earnings Estimates

| | 2023 | 2024 |
|----|-------|-------|
| Q1 | 0.63A | 0.46E |
| Q2 | 0.52A | 0.45E |
| Q3 | 0.49A | 0.49E |
| Q4 | 0.52A | 0.48E |

Product and strategic analysis

We discuss below the potential implications to HPE on Juniper's customer verticals and product segments. Historically, Juniper has predominantly sold to Service Provider (SP) customers with lower exposure to Cloud provider and Enterprise segments. However, in recent years, Juniper has improved its Enterprise presence by focusing on go-to-market transformations and leveraging the success of its acquisition of Mist.

Roughly 35% of Juniper's revenue is attributed to routing, capturing 17.5% of the market. Juniper's routing business is sold mostly to SPs and Data Center Interconnect (DCI) of Cloud, offering a highly-integrated routing portfolio. However, we believe Juniper's SP exposure is less compelling to HPE given the pressure on SP spending and expected reversion to the mean of the routing market. The SP spending environment is worsening, with BofA Global Research Telecom analyst David Barden expecting Wireless capex to decline 14% in 2023, partially related to end of spectrum spending. Additionally, the routing market has grown at a 0.4% CAGR between 2005 to 2020, yet grew 23.5% YoY in 1H23 driven by a backlog buildout and unexpected new data traffic growth. With backlog drawdown offering limited support going into 2024, coupled with weak spending initiatives across service providers, we believe growth will return to the long-term growth of low-single digits per annum.

Security accounts for approximately 12% of Juniper's revenue, with firewall as the largest security segment, accounting for 43% of security revenue. Juniper does not tend to sell security standalone and therefore does not look to compete with traditional cybersecurity players. The company primarily offers low latency capabilities and high-throughput firewalls, which is largely limited towards SP customers and to some extent Cloud customers. Given the company's narrow focus on SP customers and high-throughput firewalls, it remains to be seen whether Juniper's security segment is something HPE would keep over time.

20% of Juniper's revenue is predominantly tied to switching and wireless. The company has taken steps in the last few years to improve its business resiliency by innovating on its capabilities, such as through its integrations of Mist and Apstra, and building a competitive moat vs. networking peers. Juniper has steadily increased its Enterprise presence, supported by Mist, with the Enterprise segment accounting for over 50% of revenue in the last quarter. However, we see overlap between HPE Aruba and Juniper Mist. On one hand, HPE is focused on the visibility of the network, while Mist is focused on the visibility of the experience of the end user. On the other hand, HPE will need to merge overlapping solutions between Juniper's and its own switching platform, as well as Mist and Aruba.

Services accounts for the remaining 33% of revenue.

See following pages for accretion dilution analysis.



Accretion/Dilution analysis

Figure 1: Scenario - All cash transaction (using existing cash + new debt)

In this scenario, we estimate 12% accretion ex cost synergies, and about 24% accretion with cost synergies

| | | | |
|--|-----------------|----------------------|---------|
| Enterprise Value of Transaction | \$13,000 | | |
| Cash on HPE BS (end F23) | \$4,270 | Ticker | HPE |
| Cash from H3C sale | \$3,000 | Share price (1/8/24) | \$17.72 |
| Cash required day-to-day | \$2,270 | | |
| Cash used for transaction (\$mn) | \$5,000 | Cash/Stock mix: | |
| New debt issued (\$mn) | \$8,000 | % Stock | 0% |
| int rate on cash | 4.0% | % Existing Cash | 38% |
| int rate on new debt | 5.5% | % New Debt | 62% |
| | | | |
| | C25 | New shares(mn) | 0 |
| \$int lost on cash in one year (\$mn) | \$200.0 | | |
| \$int on new debt for one year (\$mn) | \$440 | | |

| C25 | | | Assumed Zero synergies | | OpEx synergies. No Rev synergies | | Total |
|-------------------------|-----------------|----------------|------------------------|-----------------|----------------------------------|-----------------|--------|
| | HPE | JNPR | Synergies | Combined | Synergies | Combined | |
| Revenue (\$mn) | \$30,213 | \$5,749 | 0 | \$35,963 | 0 | \$35,963 | |
| COGS | \$19,596 | 2,289 | | | | | |
| Gross Profit | \$10,617 | \$3,461 | | | | | |
| Gross Margin | 35.1% | 60.2% | | | | | |
| Opex (ex SBC) | \$7,163 | \$2,418 | | | | | |
| Integration cost | | | 0 | | 0 | | |
| Operating Profit | \$3,455 | \$1,043 | 0 | \$4,497 | \$394 | 4,892 | |
| Operating Margin | 11.4% | 18.1% | | 12.5% | | 13.6% | |
| Net Interest/Other Exp | \$200 | 19 | | \$840 | | 840 | |
| Tax | \$456 | 195 | | \$512 | | 567 | |
| Minority interest | \$0 | 0 | | \$0 | | 0 | |
| Tax Rate | 14.0% | 19.0% | | 14.0% | | 14.0% | |
| Net Income | \$2,799 | \$829 | | \$3,145 | | 3,484 | |
| Shares (mn) | 1,315.0 | 320.6 | | 1,315.0 | | 1,315.0 | |
| EPS | \$2.13 | \$2.59 | | \$2.39 | | \$2.65 | |
| Net EPS accretion: | | | | \$0.26 | | \$0.26 | \$0.52 |
| EPS accretion %: | | | | 12% | | | 24% |

Source: Company reports, BofA Global Research estimates

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Figure 2: Scenario – 75% cash (using existing cash + new debt) and 25% stock

In this scenario, we estimate 3% accretion ex cost synergies, and about 14% accretion with cost synergies

| | | | |
|--|-----------------|------------------------|---------|
| Enterprise Value of Transaction | \$13,000 | | |
| Cash on HPE BS (end F23) | \$4,270 | Ticker | HPE |
| Cash from H3C sale | \$3,000 | Share price (1/8/24) | \$17.72 |
| Cash required day-to-day | \$2,270 | | |
| Cash used for transaction (\$mn) | \$5,000 | <u>Cash/Stock mix:</u> | |
| New debt issued (\$mn) | \$4,750 | % Stock | 25% |
| int rate on cash | 4.0% | % Existing Cash | 38% |
| int rate on new debt | 5.5% | % New Debt | 37% |
| | | | |
| | C25 | New shares(mn) | 183 |
| \$int lost on cash in one year (\$mn) | \$200.0 | | |
| \$int on new debt for one year (\$mn) | \$261 | | |

| C25 | | | Assumed Zero synergies | | OpEx synergies. No Rev synergies | | Total |
|-------------------------|-----------------|----------------|------------------------|-----------------|----------------------------------|-----------------|--------|
| | HPE | JNPR | Synergies | Combined | Synergies | Combined | |
| Revenue (\$mn) | \$30,213 | \$5,749 | 0 | \$35,963 | 0 | \$35,963 | |
| COGS | \$19,596 | 2,289 | | | | | |
| Gross Profit | \$10,617 | \$3,461 | | | | | |
| Gross Margin | 35.1% | 60.2% | | | | | |
| Opex (ex SBC) | \$7,163 | \$2,418 | | | | | |
| Integration cost | | | 0 | | 0 | | |
| Operating Profit | \$3,455 | \$1,043 | 0 | \$4,497 | \$394 | 4,892 | |
| Operating Margin | 11.4% | 18.1% | | 12.5% | | 13.6% | |
| Net Interest/Other Exp | \$200 | 19 | | \$661 | | 661 | |
| Tax | \$456 | 195 | | \$537 | | 592 | |
| Minority interest | \$0 | 0 | | \$0 | | 0 | |
| Tax Rate | 14.0% | 19.0% | | 14.0% | | 14.0% | |
| Net Income | \$2,799 | \$829 | | \$3,299 | | 3,638 | |
| Shares (mn) | 1,315.0 | 320.6 | | 1,498.4 | | 1,498.4 | |
| EPS | \$2.13 | \$2.59 | | \$2.20 | | \$2.43 | |
| Net EPS accretion: | | | | \$0.07 | | \$0.23 | \$0.30 |
| EPS accretion %: | | | | 3% | | | 14% |

Source: Company reports, BofA Global Research estimates

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Model

Figure 3: HPE income statement

We model F24 revenue/EPS of \$29.4bn/\$1.88

Hewlett-Packard Enterprise (HPE)

(\$ Millions Except Per Share Data)

| | F2023E | | | | F2024E | | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 1/23A | 4/23A | 7/23A | 10/23A | 1/24E | 4/24E | 7/24E | 10/24E | F2022A | F2023A | F2024E | F2025E | F2026E |
| Income Statement | | | | | | | | | | | | | |
| Revenue | \$7,809 | \$6,973 | \$7,002 | \$7,351 | \$7,143 | \$6,783 | \$7,611 | \$7,814 | \$28,496 | \$29,135 | \$29,351 | \$30,137 | \$30,704 |
| Cost of Goods Sold | 5,135 | 4,448 | 4,486 | 4,793 | 4,712 | 4,327 | 4,876 | 5,095 | 18,829 | 18,862 | 19,009 | 19,531 | 19,911 |
| Gross Profit | 2,674 | 2,525 | 2,516 | 2,558 | 2,432 | 2,456 | 2,735 | 2,719 | 9,667 | 10,273 | 10,342 | 10,606 | 10,793 |
| Total Operating Expense | 1,756 | 1,726 | 1,798 | 1,848 | 1,667 | 1,698 | 1,926 | 1,918 | 6,754 | 7,128 | 7,209 | 7,186 | 7,231 |
| R&D | 623 | 570 | 578 | 578 | 570 | 554 | 628 | 614 | 2,045 | 2,349 | 2,367 | 2,431 | 2,477 |
| SG&A | 1,133 | 1,156 | 1,220 | 1,270 | 1,097 | 1,144 | 1,297 | 1,303 | 4,709 | 4,779 | 4,842 | 4,755 | 4,754 |
| Operating Income (Post Options, Pre-Amort.) | 778 | 673 | 627 | 639 | 765 | 758 | 809 | 801 | 2,635 | 2,717 | 3,133 | 3,420 | 3,562 |
| Op. Income (Pre-Options, Amortiz.) | 918 | 799 | 718 | 710 | 765 | 758 | 809 | 801 | 3,026 | 3,145 | 3,133 | 3,420 | 3,562 |
| Total Interest & Other Income/(Expense) | (25) | (54) | (50) | (27) | (65) | (65) | (65) | (65) | (188) | (156) | (260) | (200) | (200) |
| Pretax Income | 963 | 796 | 743 | 790 | 700 | 693 | 744 | 736 | 3,098 | 3,292 | 2,873 | 3,220 | 3,362 |
| Provision for Income Taxes (Credit) | 135 | 111 | 104 | 110 | 98 | 97 | 104 | 103 | 434 | 460 | 402 | 451 | 471 |
| Net Income (pro-forma-adj for Options) | 708 | 577 | 561 | 619 | 602 | 596 | 640 | 633 | 2,328 | 2,464 | 2,471 | 2,769 | 2,891 |
| Options Expense (net of tax) | 120 | 108 | 78 | 61 | 0 | 0 | 0 | 0 | 336 | 368 | 0 | 0 | 0 |
| Net Income (pro-forma pre options) | 828 | 685 | 639 | 680 | 602 | 596 | 640 | 633 | 2,664 | 2,832 | 2,471 | 2,769 | 2,891 |
| Diluted Operating EPS (Pre-Options) | \$0.63 | \$0.52 | \$0.49 | \$0.52 | \$0.46 | \$0.45 | \$0.49 | \$0.48 | \$2.01 | \$2.15 | \$1.88 | \$2.11 | \$2.20 |
| EPS (published) | \$0.63 | \$0.52 | \$0.49 | \$0.52 | \$0.46 | \$0.45 | \$0.49 | \$0.48 | \$2.01 | \$2.15 | \$1.88 | \$2.11 | \$2.20 |
| Diluted Weighted Average Shares | 1,315 | 1,318 | 1,316 | 1,315 | 1,315 | 1,315 | 1,315 | 1,315 | 1,323 | 1,316 | 1,315 | 1,315 | 1,315 |
| Income Statement Continued | | | | | | | | | | | | | |
| % of revenue | | | | | | | | | | | | | |
| Gross Profit | 34% | 36% | 36% | 35% | 34% | 36% | 36% | 35% | 34% | 35% | 35% | 35% | 35% |
| Opex | 22% | 25% | 26% | 25% | 23% | 25% | 25% | 25% | 24% | 24% | 25% | 24% | 24% |
| R&D | 8% | 8% | 8% | 8% | 8% | 8% | 8% | 8% | 7% | 8% | 8% | 8% | 8% |
| SG&A | 15% | 17% | 17% | 17% | 15% | 17% | 17% | 17% | 17% | 16% | 16% | 16% | 15% |
| EBIT (Post-options, Pre-Amortization) | 10% | 10% | 9% | 9% | 11% | 11% | 11% | 10% | 9% | 9% | 11% | 11% | 12% |
| Options Expense | 2% | 2% | 1% | 1% | 2% | 2% | 1% | 1% | 1% | 1% | 0% | 0% | 0% |
| EBIT (Pre-options, Pre-Amortization) | 12% | 11% | 10% | 10% | 11% | 11% | 11% | 10% | 11% | 11% | 11% | 11% | 12% |
| Pretax Income | 12% | 11% | 11% | 11% | 10% | 10% | 10% | 9% | 11% | 11% | 10% | 11% | 11% |
| Tax Rate | 14% | 14% | 14% | 14% | 14% | 14% | 14% | 14% | 14% | 14% | 14% | 14% | 14% |
| Net Income (Operating, pre-options) | 11% | 10% | 9% | 9% | 8% | 9% | 8% | 8% | 9% | 10% | 8% | 9% | 9% |
| Net Income (Operating, post-options) | 9% | 8% | 8% | 8% | 8% | 9% | 8% | 8% | 8% | 8% | 8% | 9% | 9% |
| Revenues (Y/Y) | 12% | 4% | 1% | -7% | -9% | -3% | 9% | 6% | 3% | 2% | 1% | 3% | 2% |
| Organic Growth (Y/Y) | 12% | 4% | 1% | -7% | -9% | -3% | 9% | 6% | 2% | 2% | 2% | 2% | 2% |
| Opex (Y/Y) | 3% | 4% | 7% | 9% | -5% | -2% | 7% | 4% | -2% | 6% | 1% | 0% | 1% |
| R&D (Y/Y) | 24% | 10% | 14% | 12% | -9% | -3% | 9% | 6% | 3% | 15% | 1% | 3% | 2% |
| SG&A (Y/Y) | -6% | 1% | 4% | 7% | -3% | -1% | 6% | 3% | -4% | 1% | 1% | -2% | 0% |
| EBIT Incl. SFAS 123 (Y/Y) | 22% | 31% | -6% | -22% | -2% | 13% | 29% | 25% | 6% | 4% | 0% | 9% | 4% |
| Pretax Income (Y/Y) | 19% | 18% | 2% | -10% | -27% | -13% | 0% | -7% | 2% | 6% | -13% | 12% | 4% |
| Net Income (Y/Y) | 19% | 17% | 2% | -10% | -27% | -13% | 0% | -7% | 2% | 6% | -13% | 12% | 4% |
| Op. EPS (Y/Y) | 20% | 18% | 2% | -10% | -27% | -13% | 0% | -7% | 3% | 7% | -13% | 12% | 4% |
| Op. EPS Option adj (Y/Y) | 20% | 18% | 2% | -10% | -27% | -13% | 0% | -7% | 3% | 7% | -13% | 12% | 4% |
| Revenues (Q/Q) | -1% | -11% | 0% | 5% | -3% | -5% | 12% | 3% | | | | | |
| Organic Growth (Q/Q) | -1% | -11% | 0% | 5% | -3% | -5% | 12% | 3% | | | | | |
| Opex (Q/Q) | 3% | -2% | 4% | 3% | -10% | 2% | 13% | 0% | | | | | |
| R&D (Q/Q) | 21% | -9% | 1% | 0% | -1% | -3% | 13% | -2% | | | | | |
| SG&A (Q/Q) | -4% | 2% | 6% | 4% | -14% | 4% | 13% | 0% | | | | | |
| EBIT Incl. SFAS 123 (Q/Q) | -5% | -13% | -7% | 2% | 20% | -1% | 7% | -1% | | | | | |

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

Hewlett-Packard Enterprise (HPE)

Our PO is \$19 based on 10x our C24E EPS of \$1.93. Our target multiple is slightly higher than the median (9x) of the historical range (6x-13.0x). In our opinion, this multiple is justified as it balances positives including that HPE now has a better growth profile, and lower Tier-1 server sales and free cash flow is more in-line with normalized values, vs. near-term macro headwinds and risk from high backlog and slower customer acceptances.

Downside risks to our PO are larger than expected economic slowdown due to inflation and rising interest rates, on-going component availability concerns, COVID19 related shutdowns in China, more aggressive server pricing from competitor Dell, a faster than expected adoption of As-a-Service offerings which can pressure revenues in the near-term, unexpected share loss and slower than expected mix shift to higher margin products and services, FX headwinds, restructuring and execution challenges.

Upside risks are share gains, steady margin improvement and lower than expected restructuring costs and better free cash flow.

Analyst Certification

I, Wamsi Mohan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - IT Hardware and Technology Supply Chain Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|---------------------------------------|-------------|------------------|--------------------|
| BUY | | | | |
| | Amphenol | APH | APH US | Wamsi Mohan |
| | Corning Inc. | GLW | GLW US | Wamsi Mohan |
| | Dell Technologies Inc. | DELL | DELL US | Wamsi Mohan |
| | Flex Ltd. | FLEX | FLEX US | Ruplu Bhattacharya |
| | HP Inc. | HPQ | HPQ US | Wamsi Mohan |
| | International Business Machines Corp. | IBM | IBM US | Wamsi Mohan |
| | Jabil Inc. | JBL | JBL US | Ruplu Bhattacharya |
| | Nutanix Inc | NTNX | NTNX US | Wamsi Mohan |
| | Roku, Inc. | ROKU | ROKU US | Ruplu Bhattacharya |
| | Seagate Technology | STX | STX US | Wamsi Mohan |
| | Sensata Technologies Holdings Plc | ST | ST US | Wamsi Mohan |
| | TD Synnex Corp | SNX | SNX US | Ruplu Bhattacharya |
| | TE Connectivity Ltd. | TEL | TEL US | Wamsi Mohan |
| | Teradata Corporation | TDC | TDC US | Wamsi Mohan |
| | Western Digital Corporation | WDC | WDC US | Wamsi Mohan |
| NEUTRAL | | | | |
| | Apple Inc. | AAPL | AAPL US | Wamsi Mohan |
| | Arrow Electronics Inc. | ARW | ARW US | Ruplu Bhattacharya |
| | Avnet Inc. | AVT | AVT US | Ruplu Bhattacharya |
| | CDW Corp | CDW | CDW US | Ruplu Bhattacharya |
| | Concentrix Corporation | CNXC | CNXC US | Ruplu Bhattacharya |
| | Hewlett-Packard Enterprise | HPE | HPE US | Wamsi Mohan |
| | Pure Storage | PSTG | PSTG US | Wamsi Mohan |
| UNDERPERFORM | | | | |
| | DigitalOcean | DOCN | DOCN US | Wamsi Mohan |
| | NetApp Inc. | NTAP | NTAP US | Wamsi Mohan |
| | Sanmina Corporation | SANM | SANM US | Ruplu Bhattacharya |
| | Vishay Intertechnology, Inc. | VSH | VSH US | Ruplu Bhattacharya |
| | Vizio | VZIO | VZIO US | Wamsi Mohan |



US - IT Hardware and Technology Supply Chain Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|---------|-------------|------------------|---------|
|-------------------|---------|-------------|------------------|---------|

IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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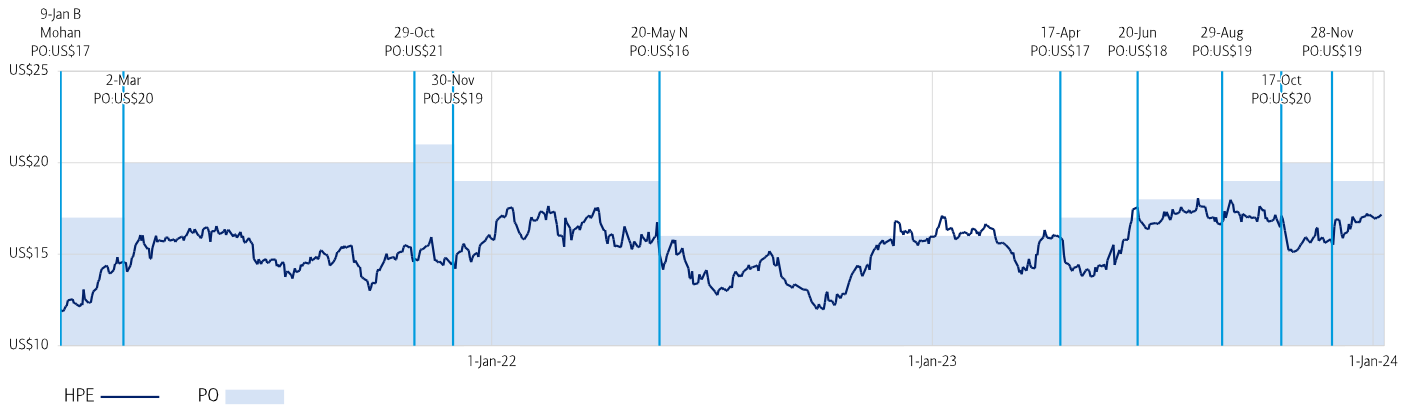
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Hewlett-Packard (HPE) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 215 | 53.09% | Buy | 111 | 51.63% |
| Hold | 97 | 23.95% | Hold | 45 | 46.39% |
| Sell | 93 | 22.96% | Sell | 24 | 25.81% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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