

Hewlett-Packard Enterprise

HPE announces acquisition of Juniper Networks for about \$14bn in cash

Maintain Rating: NEUTRAL | PO: 19.00 USD | Price: 16.14 USD

HPE acquisition of Juniper Networks for ~\$14bn in cash

HPE announced its acquisition of Juniper Networks for about \$14bn in cash or \$40 per share. The deal has a solid financial profile, where the incremental EBIT from Juniper is expected to drive accretion in year 1 despite incremental debt (Fig 1). The deal is expected to close in late CY24 and be financed with debt, convertible preferred securities, and cash. HPE expects the deal to be accretive to adj EPS the first year post close and plans reduce its leverage to 2x approx. 2 years post close. After completion of the deal, Juniper CEO Rami Rahim would report to HPE President & CEO Antonio Neri and run the networking segment. We maintain our Neutral rating as positives of long-term mix shift to higher-margin rev is balanced by the near-term weaker Enterprise spend environment.

Positives of the deal

The main positives of the announced deal are: 1) deal would be accretive in the first year, 2) would be additive to HPE's rev, GM and EBIT growth, 3) provides exposure to Service Provide and Cloud customers with potential rev synergies, 4) more comprehensive portfolio across networking with TAM expansion, 5) would maintain dividend and repurchase policy, 6) c24 will likely be a trough in networking revs for JNPR and HPE thereby driving future growth and 6) would drive cost synergies of \$450mn over 3 years.

Investor concerns around the deal

The main concerns around the deal center on: 1) Long term strategic rationale vs. other options (capital return as an example), 2) Service provider deals can be lumpy and add inherently more volatility to revs and earnings, 3) Sales motion (go to market) very different (direct) for Juniper vs. channel based for HPE, 4) portfolio overlap and plans to address that, 5) execution risk associated with an R&D intensive routing player with different go to market, and 6) deal announced right before new CFO comes on board.

Too early to call the long-term ramifications

Depending on execution the deal could solidify HPE as a provider of a much larger piece of the overall IT spending stack. With servers (volume to high performance compute), storage and much larger portfolio in networking driving higher levels of automation and AI across infrastructure HPE is aiming to capture incremental wallet share.

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	8.0x	7.5x	8.6x	7.6x	7.3x
GAAP P/E	24.5x	10.5x	8.6x	7.6x	7.3x
Dividend Yield	3.0%	3.0%	3.2%	3.2%	3.2%
EV / EBITDA*	6.1x	5.9x	5.8x	5.3x	5.1x
Free Cash Flow Yield*	10.0%	10.6%	9.2%	10.3%	11.0%

* For full definitions of *IQmethod*SM measures, see page 5.

10 January 2024

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Stock Data

Price	16.14 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	20,705 USD / 1,282.9 (mn)
Free Float	99.7%
Average Daily Value (mn)	198.83 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™	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"](#).

HPE: Hewlett-Packard Enterprise
JNPR: Juniper

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Timestamp: 10 January 2024 01:39PM EST

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 5.

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 12319,174

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

We estimate 9% accretion ex cost synergies, and about 14% accretion with cost synergies

Enterprise Value of Transaction	\$13,600		
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	\$4,270		
Cash used for transaction (\$mn)	\$3,000	<u>Cash/Stock mix:</u>	
Preferred issued (\$mn)	\$1,500	% Stock	0%
int rate on new preferred	8.5%	% Existing Cash	22%
New debt issued (\$mn)	\$9,100	% New Debt	78%
int rate on cash	4.0%		
int rate on new debt	5.5%	New shares(mn)	0
	C25		
\$int lost on cash in one year (\$mn)	\$120.0		
\$int on new debt for one year (\$mn)	\$628		

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	\$150	4,647	
Operating Margin	11.4%	18.1%		12.5%		12.9%	
Net Interest/Other Exp	\$200	19		\$948		948	
Tax	\$456	195		\$497		518	
Minority interest	\$0	0		\$0		0	
Tax Rate	14.0%	19.0%		14.0%		14.0%	
Net Income	\$2,799	\$829		\$3,052		3,181	
Shares (mn)	1,315.0	320.6		1,315.0		1,315.0	
EPS	\$2.13	\$2.59		\$2.32		\$2.42	
Net EPS accretion:				\$0.19		\$0.10	\$0.29
EPS accretion %:				9%			14%

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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
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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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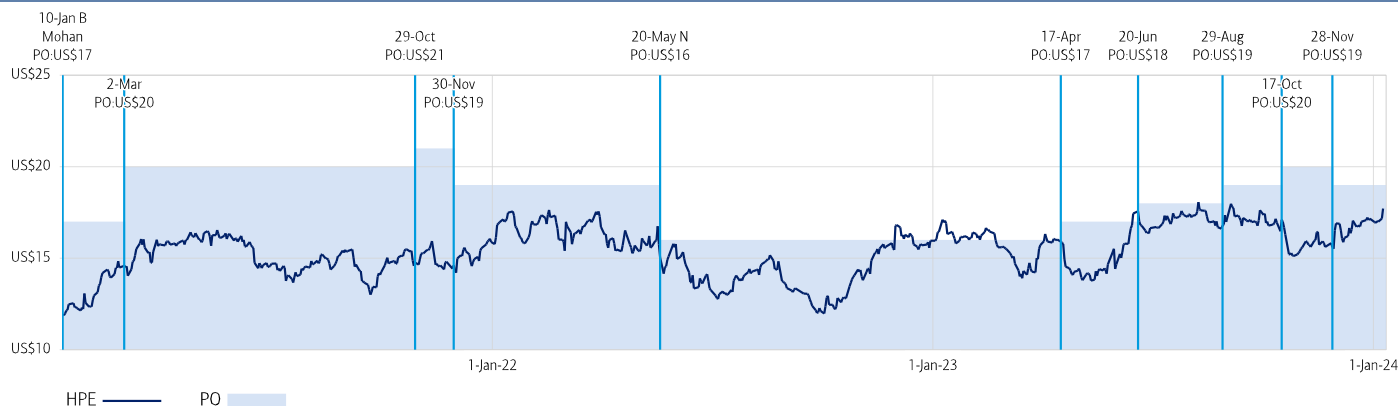
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Disclosures

Important Disclosures

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%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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