FINANCIAL ANALYTICS

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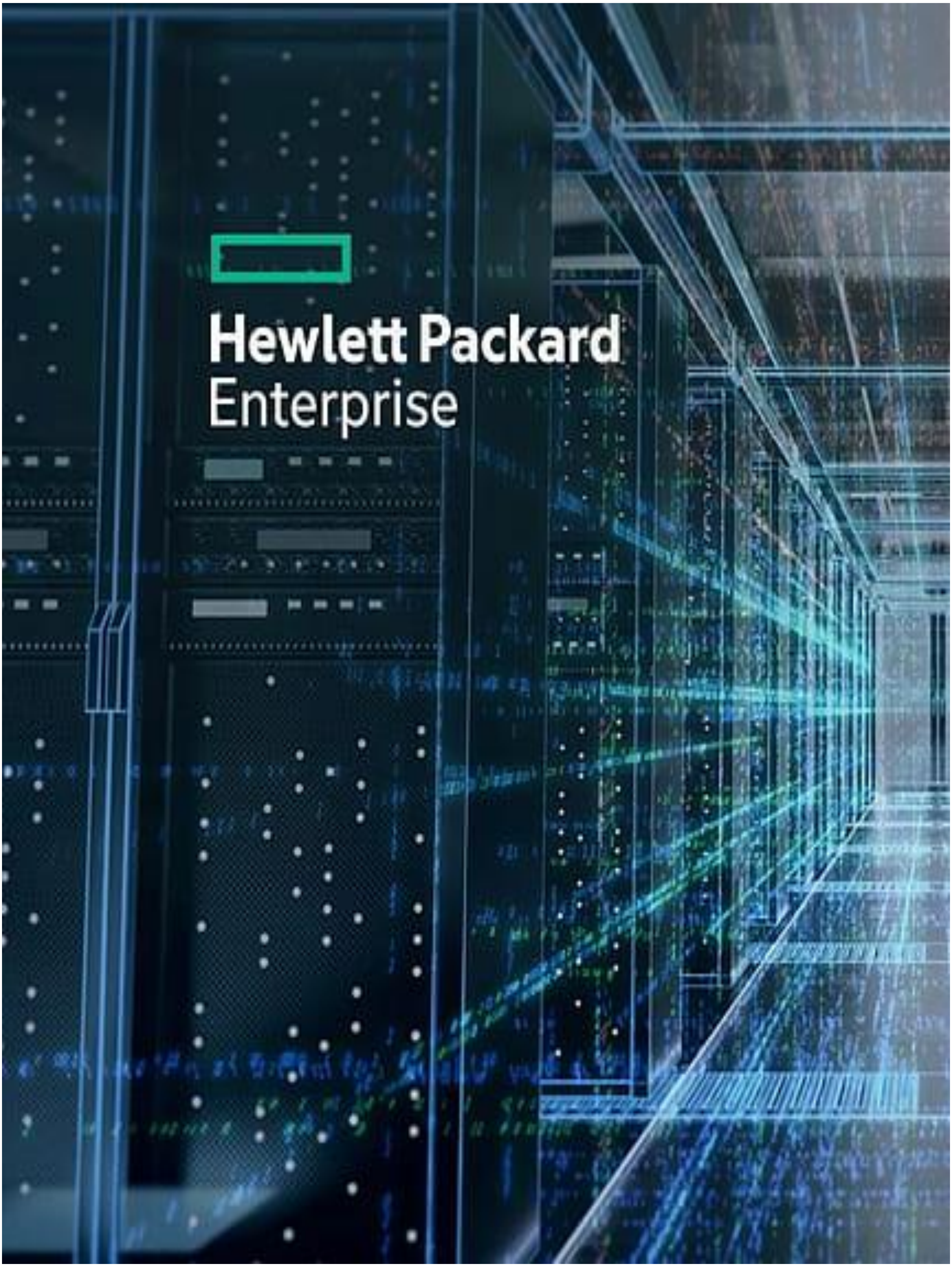
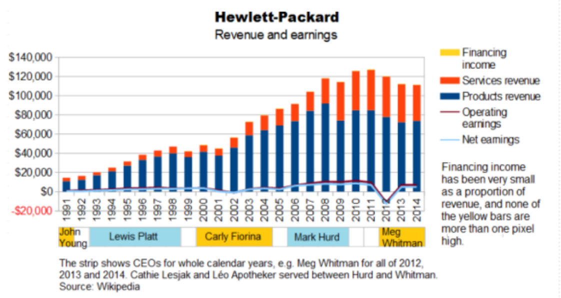


Date: 23-02-2025	Current Price: $ 21.14	Recommendations: Buy
Ticker: Hewlett Packard Enterprise (HPE)	Headquarters: Spring, TX	Target Price: $35.53

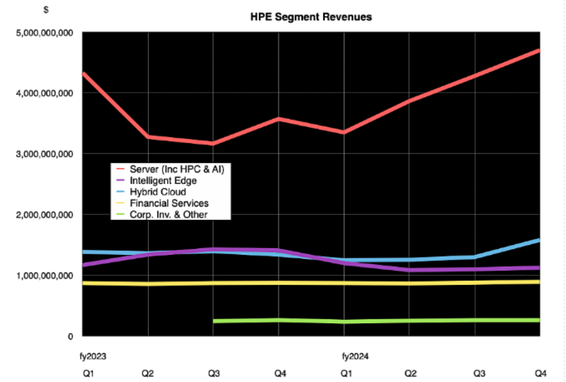
HPE Current Stick Price:

Revenue and earnings over the years:



Revenue Summary segment wise:

Revenue Drivers:



BUSINESS DESCRIPTION

Hewlett Packard Enterprise is the global edge-to-cloud company headquartered in Spring, Texas. Founded on November 1st, 2015, as a result of the strategic separation from Hewlett-Packard Inc., HPE helps customers use technology to slash the time it takes to turn ideas into value so they can succeed in todays and future digital economy. Wholly focused on enterprise- driven innovation with HP Inc. focused on personal computing and printing solutions, HPE works with enterprises to provide a wide array of services and options, such as:

<u>IT Infrastructure</u>: Industry-leading servers, including ProLiant and Apollo, and storage systems for high performance and reliability, including Alletra, Nimble, and Primera.

<u>Networking Solutions:</u> Aruba Networks for end-to-end secure, intelligent networking.

<u>Hybrid Cloud & Emerging Technologies:</u> AI-driven technologies, scalable hybrid cloud services, and advanced data analytics platforms that will help future-proof businesses.

<u>High-Performance Compute:</u> Among the developed solutions for complex workloads are containerization and edge computing.

<u>Cybersecurity & IT Management:</u> A wide array of tools that ensure system integrity and operational efficiency, among other features.

HPE's commitment to innovation, customer-centric solutions, and an implementation framework for digital transformations, HPE takes upon itself the mission of enabling organizations to accelerate growth, optimize infrastructure, and unleash the full value of data in a fast-moving business landscape.

Revenue Drivers:

HPE splits its revenues into five main buckets and their fortunes differed:

- **Servers** led growth, reaching **$4.7 billion**, up **32%**, driven by enterprise demand.
- **Hybrid Cloud** grew **18%** to **$1.6 billion**, reflecting strong cloud adoption.
- **Intelligent Edge** revenue declined **20%** to **$1.1 billion**, signaling weaker demand.
- **Financial Services** saw modest growth, rising **2%** to **$893 million**.
- **Corporate Investments & Other** declined **2%**, generating **$262 million**.

Historic Data since 2015:

Historic Data:

Historical daily share price chart and data for Hewlett Packard Enterprise since 2015 adjusted for splits and dividends. The latest closing stock price for Hewlett Packard Enterprise as of January 31, 2025 is $ **21.19**.

- The all-time high Hewlett Packard Enterprise stock closing price was **24.42** on **January 22, 2025**.
- The Hewlett Packard Enterprise 52-week high stock price is **24.66**, which is **16.4%** above the current share price.
- The Hewlett Packard Enterprise 52-week low stock price is **14.46**, which is **31.8%** below the current share price.
- The average Hewlett Packard Enterprise stock price for the last 52 weeks is **19.32**.

CORPORATE GOVERNANCE

Hewlett Packard Enterprise aims at the highest level of corporate governance, accountability, transparency, and ethics in doing its business. It has designed its governance structure to promote long-term value creation for stockholders simultaneously obtaining confidence in the stakeholders. The following summarizes some key Corporate Governance aspects for Hewlett Packard Enterprise.

Board of Directors: Company has 11 directors on its Board who oversees performance, strategy, risk, and ethical behaviour, reviews financial internal controls, compliances with law, and management accountability.

Leadership Structure: Board maintains that the positions of Chairman and CEO should be separated to get more leverage over oversight. Lead Independent Director appointment will take place to bring balance and leadership about conducting executive sessions.

Committees: HPE has several standing committees, which include Audit, Compensation, Governance and Technology; these consist entirely of independent directors. All the committees will look into all important issues which are financial management control, compliance matters, executive compensations and innovation.

Director Independence and Composition: Most directors need to be independent to safeguard owners' interest. The Board insists on diversity, experience, and expertise for proper representations.

Succession Planning: The Board does review Chief Executive Officers and Senior Leadership succession plan periodically, which also includes emergency succession plans.

Leadership Evaluation: Board evaluations concentrate on strategic vision, operational excellence, and preparedness to face future challenges.

Performance Assessment: Annual self-assessments by the Board and its committees assess effectiveness and quality of governance, Feedback is then used to drive continuous improvement.

Ethics: All directors, officers, and employees must abide by HPE's "Standards of Business Conduct," which stresses integrity, accountability, and ethics in all decisions.

Stakeholder Communication: The CEO leads stakeholder communication, with the support of directors who will meet with significant shareholders as appropriately.

Stock Ownership Requirements: Directors and executives have stock-owning requirements, so their financial interests are aligned with shareholder value creation.

Corporate Responsibility: HPE consolidates ESG principles into its strategy. The company uses these are as a roadmap to ensure responsible operations and sustainable practices.

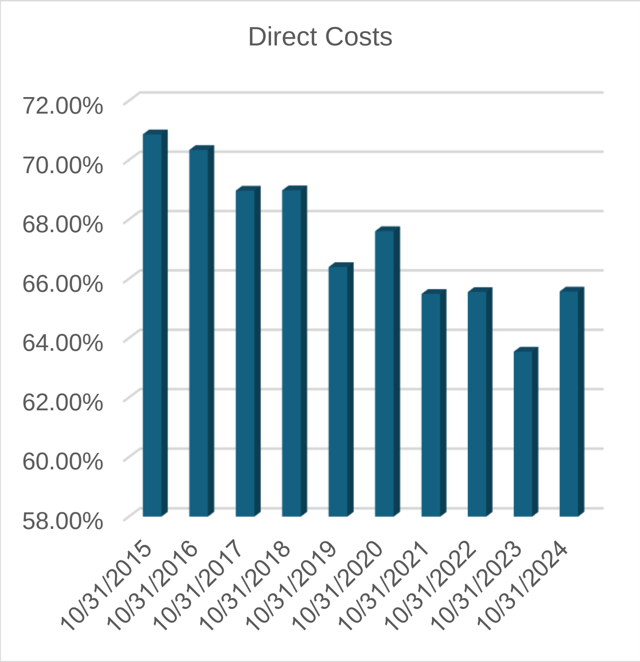
FINANCIAL STATEMENT ANALYSIS

Overview:

Hewlett-Packard financial performance indicates important trends during the period analyzed in liquidity, asset management, operational efficiency, and financial strategies. The following provides a detailed analysis of the main financial ratios and trends and their implications on HP business strategy.

Total Revenue:

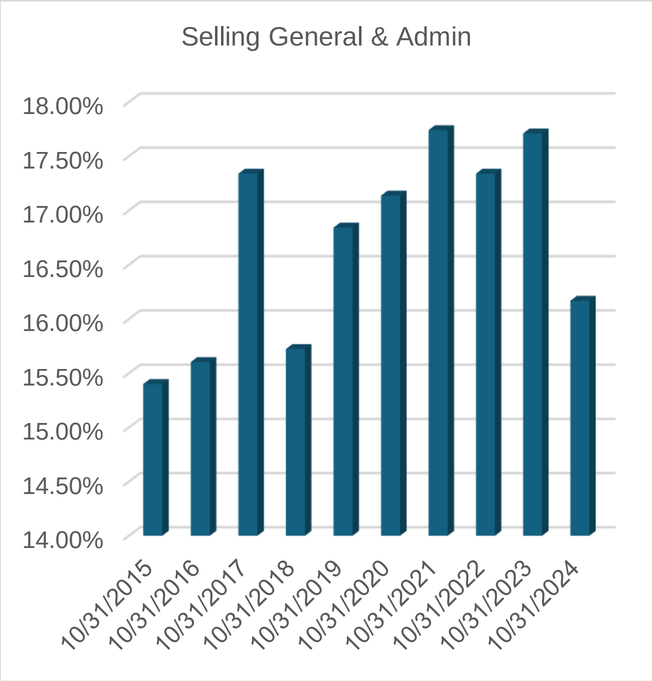
Baseline: Total revenue is the top line of the income statement and is represented as 100% annually. All other metrics are analyzed as a percentage of this total revenue.



Direct Costs

Trend: Direct costs have been trending down from 72% in 2015 to 59% in 2023, increasing slightly to 60% in 2024.

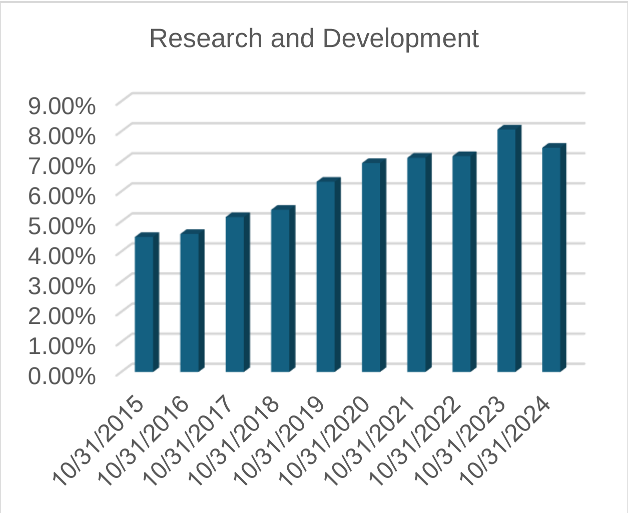
Implications: This reflects better cost management through improvement in operational efficiency and supplier agreements, contributing to increased profitability. Increasing to 60% in 2024 may be indicative of some outside cost pressures; therefore, continuing vigilance toward cost control must be maintained.



Selling, General & Administrative (SG&A) Expenses

Trend: SG&A expenses have trended up and down over the decade, starting at approximately 15% in 2015 and increasing to a high of 17.5% in 2017 and maintaining around 16-17% from 2020 to 2023. There is a significant drop in 2024 down to 15%.

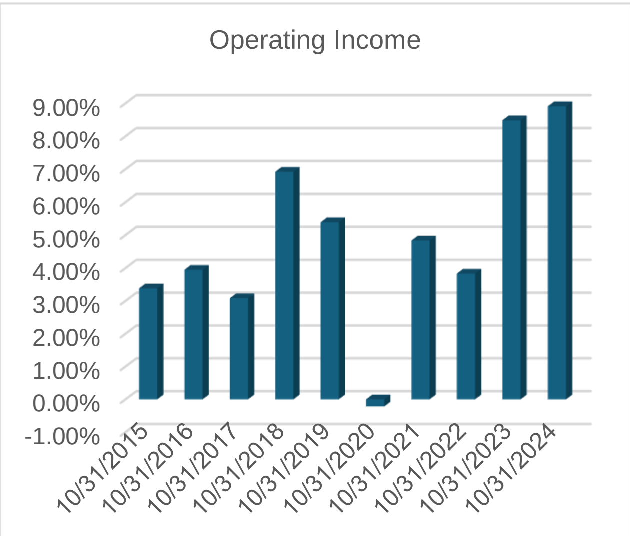
Implications: Fluctuation in SG&A reflects the shift of operational priorities toward investment in administrative functions or marketing activities. A recent decline in 2024 would mean improvement in cost efficiency or a reduction of expenditure in non-core areas, which may allow reallocation to strategic initiatives or enhancement of profitability. It will require close monitoring while striking a balance between operational effectiveness and cost control.



Research & Development (R&D) Expenses:

Trend: R&D expenses have shown a gradual increase from 4% in the year 2015 to approximately 8.5% in the year 2024.

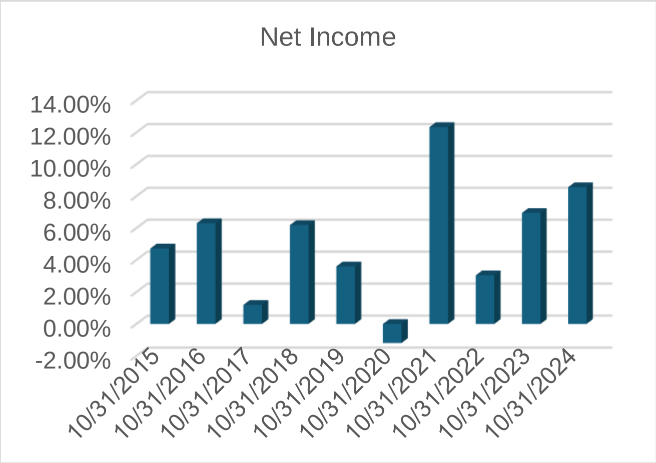
Implication: A consistent rise indicates that the focus on innovation and product development has increasingly been viewed as a driver for long-term growth and competitiveness. Sustained investment in R&D reflects the strategic priorities attached to technological advancements or new offerings.



Operating Income

Trend: Operating income shows some wide fluctuations, reaching a high of about 7% in 2018, then falling to near 0% in 2020, and then bouncing back strongly to 9% by both 2023 and 2024.

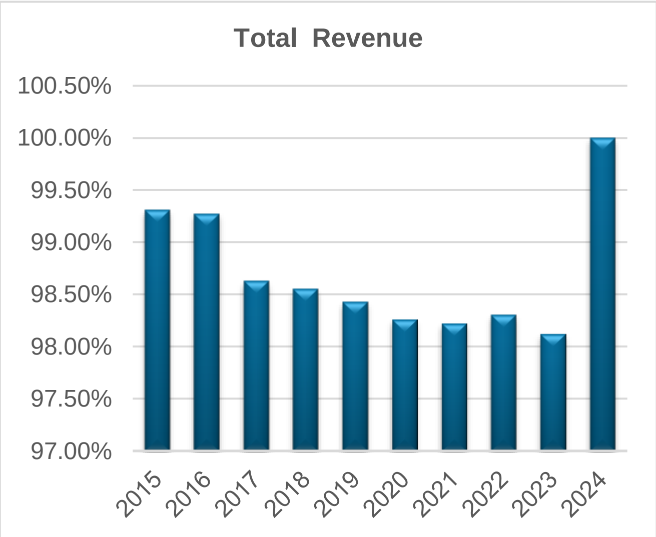
Implications: The fluctuations reflect varying profitability, likely driven by changes in costs, revenue, or strategic investments. The recent sharp increase suggests improved efficiency, cost control, or revenue growth, positioning the company for stronger financial performance.



Net Income

Trend: Net income has generally fluctuated over the years, reaching it speak in 2021 at 13%, then a sharp fall in 2022. It rebounded to 8% in 2023 and remained consistent in 2024.

Implication: The volatility reflected in the change in profitability, influenced by some unstable external factors such as market conditions or internal cost management. The recent recovery suggests stronger financial health possibly due to better cost control or revenue growth strategies. Stability, therefore, should be maintained for sustained success.

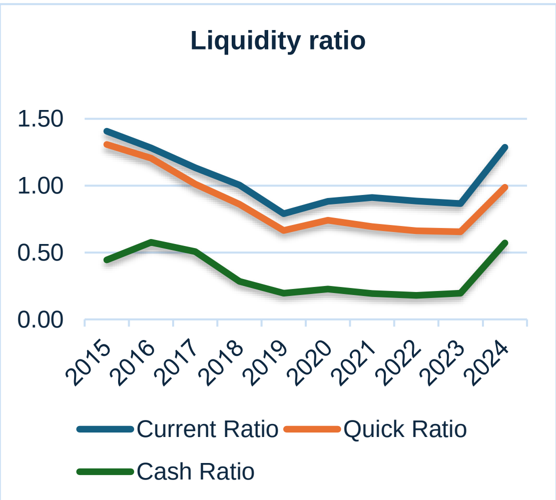


Total Revenue

Trend: From 2015 to 2016, almost all of the company's total revenue came from sales, staying close to 100%. Starting in 2017, this percentage dropped slightly and levelled off between 98–99% through 2023. In 2024, sales revenue as a percentage of total revenue rose sharply, nearly returning to 100%.

Implications: The slight decline between 2017 and 2023 suggests the company may have been generating a small portion of its revenue from other sources, like services or alternative income streams. The sharp rise in 2024 likely indicates a shift back to focusing on sales or a reduction in other revenue sources, showing how much the company depends on its core sales activities.

FINANCIAL RATIOS

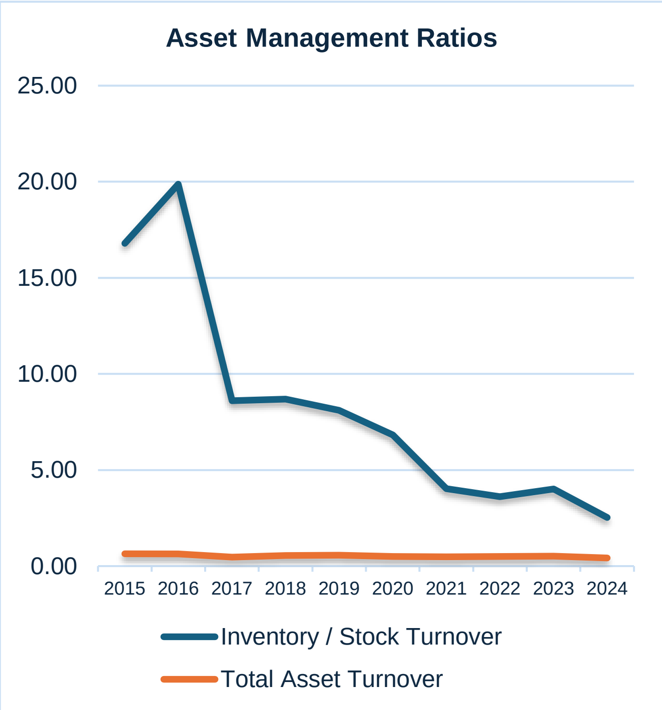


Liquidity Ratio

Current Ratio: The level of the company's ability to meet its short-term obligation drastically fell from 1.41 in 2015 to 0.79 in 2019, thereby indicating weaker liquidity within that period. However, the ratio improved gradually post-2020 to reach 1.29 in 2024, indicating improvement in the levels of stability in terms of short-term finances. Improvement after 2020 indicates an improvement in the management of liquidity, though sustaining an upward trend is very essential for sustaining the operation and gaining confidence in investors.

Quick Ratio: As in the case of the current ratio, the quick ratio decreased from 1.31 in 2015 to a low of 0.66 in 2022 before rebounding slightly to 0.99 by 2024. Improvement in the management of liquid assets is thus considered good in light of better cash flow management, but further improvement is necessary to reduce dependence on inventory or slower moving assets.

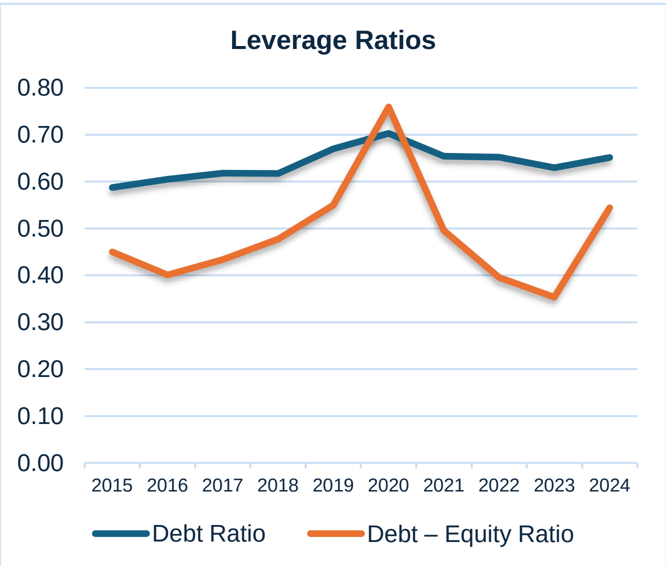
Cash Ratio: The cash ratio was similarly consistently low during the period between 0.44 in 2015 and 0.57 in 2024. It is thus critical for HP Enterprise to increase cash generation to provide a buffer against unexpected financial shocks.



Asset Management Ratio

Inventory/Stock Turnover: This has fallen drastically from 16.80 in 2015 to 2.53 in 2024, meaning a severe slack in the wheels of inventory management. This could point to problems such as over-inventory or reduced sales. The falling ratio thus acts like a red flag since inefficient inventory management ties up capital and reduces overall operational efficiency.

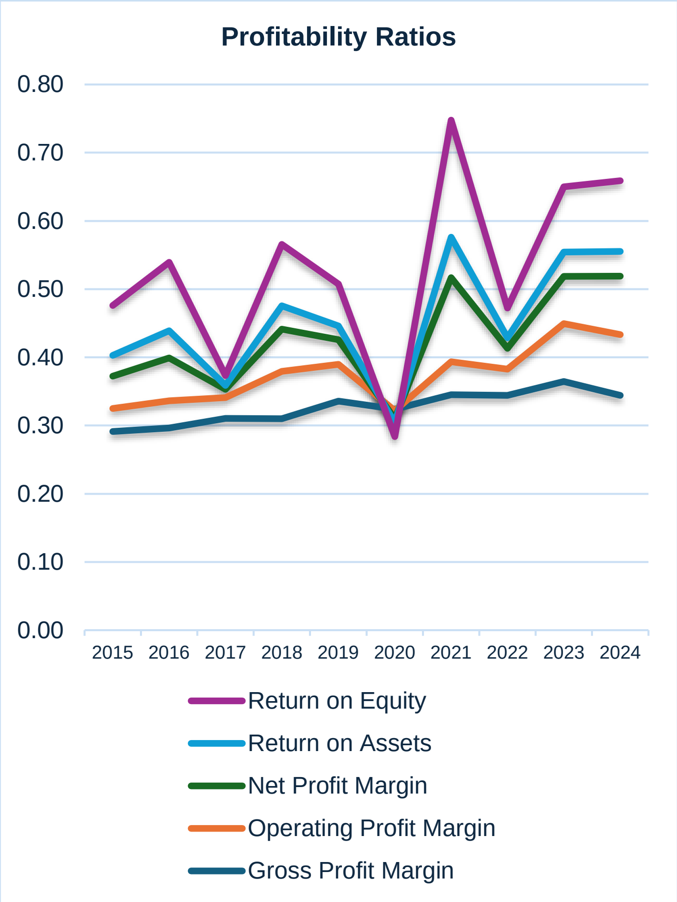
Total Asset Turnover: The asset turnover ratio decreased from 0.64 in 2015 to 0.42 in 2024, indicating a reduced ability to use assets to generate revenue. It means that better asset management practices are necessary to maximize the generation of revenues from existing resources.



Leverage Ratios

Debt Ratio: The debt ratio increased from 0.59 in 2015 to a high of 0.70 in 2020, indicating an increased reliance on debt financing. It slightly fell afterward but stabilized at 0.65 in 2024. Although such stabilization is positive, the company still has an extremely high dependence on debt and hence faces potential risks during an economic downturn or when revenues are low.

Debt-to-Equity Ratio: The debt-to-equity ratio also followed the same trend, rising to a peak of 0.76 in 2020 before falling to 0.54 by 2024. This shows reduced leverage, although the company still maintains a debt-to-equity ratio that is relatively high. While the decrease is encouraging, further reduction in leverage is suggested for lowering financial risks and increasing investor confidence.



Profitability Ratios

Gross Profit Margin: The gross profit margin also showed an improvement from 0.29 in 2015 to 0.34 in 2024, underpinning improved cost management in relation to revenue. The uptrend is very positive, but although this is positive, there is considerable scope to improve this ratio significantly to increase overall profitability.

Operating Profit Margin: Operating margins, which were consistently low, improved from 0.03 in 2015 to 0.09 in 2024, indicating some gradual gains in operational efficiency. Though this improvement is worth appreciating, the low margins are indicative of greater initiatives for cost optimization and revenue growth.

Net Profit Margin: The net profit margins were marginal or negative in certain years, with the lowest recorded -0.01 in 2020. It recovered somewhat and rose to 0.04 by 2024. Improvement in net margins through cost reduction and diversification of revenues is something which the company should do.

Return on Assets (ROA): ROA was weak, reaching a high of 0.06 in 2021 before again falling to 0.01 in 2024. It reflects poor usage of assets to generate earnings. The falling ROA reflects that much more needs to be done in terms of improving asset management strategies in order to improve profitability.

Return on Equity (ROE): ROE has touched a high of 0.17 in 2021 but dropped to 0.10 in 2024, meaning it reduced shareholder return over time. HP Enterprise has to improve profitability for better value creation for shareholders and increase investment prospects.

INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

Comparing Financial Ratios against industry competitors: CISCO, ORACLE, IBM

Liquidity:

HPE: HPE's liquidity ratios fluctuated over the period. After a significant decline by 2020 (Current Ratio of 0.79), the company recovered by 2024 (Current Ratio of 1.29). Despite the improvement, its Quick Ratio has remained below 1.0, indicating a reliance on inventory to cover liabilities.

CISCO: Cisco's liquidity position has weakened over the years, with its Current and Quick Ratios declining from 3.23 and 3.16 in 2015 to 0.91 and 0.83 in 2024. Its Cash Ratio dropped to 0.18 in 2024, reflecting reduced reliance on liquid cash reserves. While initially strong, its declining liquidity raises concerns about its ability to meet short-term obligations efficiently.

ORACLE: Oracle's liquidity ratios started strong in 2015 (Current Ratio of 4.13) but dropped significantly to 0.72 in 2024. Such volatility highlights potential risks due to increasing short-term liabilities or aggressive capital allocation.

IBM: IBM's liquidity ratios have remained consistent, with its Current and Quick Ratios close to 1.0 throughout the years. This stability demonstrates effective financial management, making IBM a reliable performer in liquidity metrics.

Asset Management:

Inventory Turnover:

HPE's Inventory Turnover fell sharply from 16.80 in 2015 to 2.53 in 2024, indicating significant inefficiencies in asset utilization. CISCO and ORACLE exhibit moderate inventory turnover, but neither matches IBM's performance. IBM leads with the highest Inventory Turnover, peaking at 27.11 in 2018 and remaining strong at 23.74 in 2024. This reflects exceptional efficiency in inventory management.

Total Asset Turnover:

HPE remained relatively stable around 0.5 but dropped to 0.42 in 2024, showing declining efficiency. CISCO improved steadily, peaking at 0.56 in 2023, reflecting better asset utilization. ORACLE stagnated near 0.3-0.4, while IBM maintained a steady performance around 0.5.

Leverage:

HPE: HPE exhibited higher Debt Ratios, peaking at 0.7 in 2020, and volatile Debt-to-Equity Ratios, suggesting inconsistent leverage management.

CISCO: Cisco's Debt Ratio remained relatively low at around 0.6, and its Debt-to-Equity Ratio declined to 0.43 by 2024, indicating careful debt management.

ORACLE: Oracle's Debt-to-Equity Ratio spiked dramatically to 80.54 in 2023, indicating heavy reliance on debt, which may pose financial risks in adverse market conditions.

IBM: IBM consistently had high Debt Ratios (around 0.86) but managed these effectively, maintaining financial stability.

Profitability:

Gross Profit Margin:

Oracle leads with consistently high margins (80%), reflecting strong operational efficiency. Cisco's margins (~64%) highlight robust cost management, while HPE lags with margins around 30-35%.

Operating and Net Profit Margins:

Cisco maintained stable Operating Margins (~25%) and Net Margins (~20%) post-2016, showcasing strong profitability. Oracle's profitability deteriorated after 2021, with Net Margins turning negative. IBM's profitability declined, with Net Margins dropping to 0.03 in 2024.

Return on Equity (ROE):

IBM excelled early on with an ROE of 1.01 in 2015 but dropped significantly to 0.03 by 2024.

Oracle's ROE peaked at 7.92 in 2023 but showed significant volatility, turning negative earlier.

Cisco maintained steady ROE performance, reflecting consistent shareholder returns.

COMPETITIVE POSITIONING

	HPE	Cisco	Oracle	IBM
Net Income	30.127B	53.80B	52.96B	61.86B
ROE	0.1	0.23	1.2	0.33
ROA	0.04	0.08	0.07	0.06
Current Ratio	1.29	0.96	0.72	2.5
Gross Profit Margin	34.43	64.73	71.41	55.45

Net Income

IBM leads in net income, reporting $61.86billion, which highlights its strong profitability and strong revenue generation capabilities. Cisco follows closely with $53.80 billion, reflecting its ability to maintain substantial earnings despite market challenges. Oracle also demonstrates competitive profitability with a net income of $52.96 billion. In comparison, HPE lags significantly with $30.127 billion, indicating lower profitability and a smaller scale of operations compared to these industry giants.

Return on Equity (ROE)

Oracle stands out with the highest Return on Equity (ROE) at 1.2, showcasing its exceptional efficiency in delivering returns to shareholders. IBM follows with an ROE of 0.33, which indicates effective utilization of equity to generate income. Cisco's ROE of 0.23 is moderate, showing steady but less aggressive returns. In stark contrast, HPE's ROE of 0.1 highlights weaker efficiency in utilizing shareholder equity, underscoring its need to optimize equity management strategies to remain competitive with Cisco, IBM, and Oracle.

Return on Assets (ROA)

Cisco takes the lead in Return on Assets (ROA) with a figure of 0.08, reflecting its superior ability to effectively use assets to generate income. Oracle and IBM follow closely with ROA figures of 0.07 and 0.06, respectively, demonstrating their solid asset utilization. HPE, however, reports the lowest ROA at 0.04, emphasizing its need to enhance operational efficiency and better leverage its assets to close the gap with Cisco, IBM, and Oracle.

Liquidity

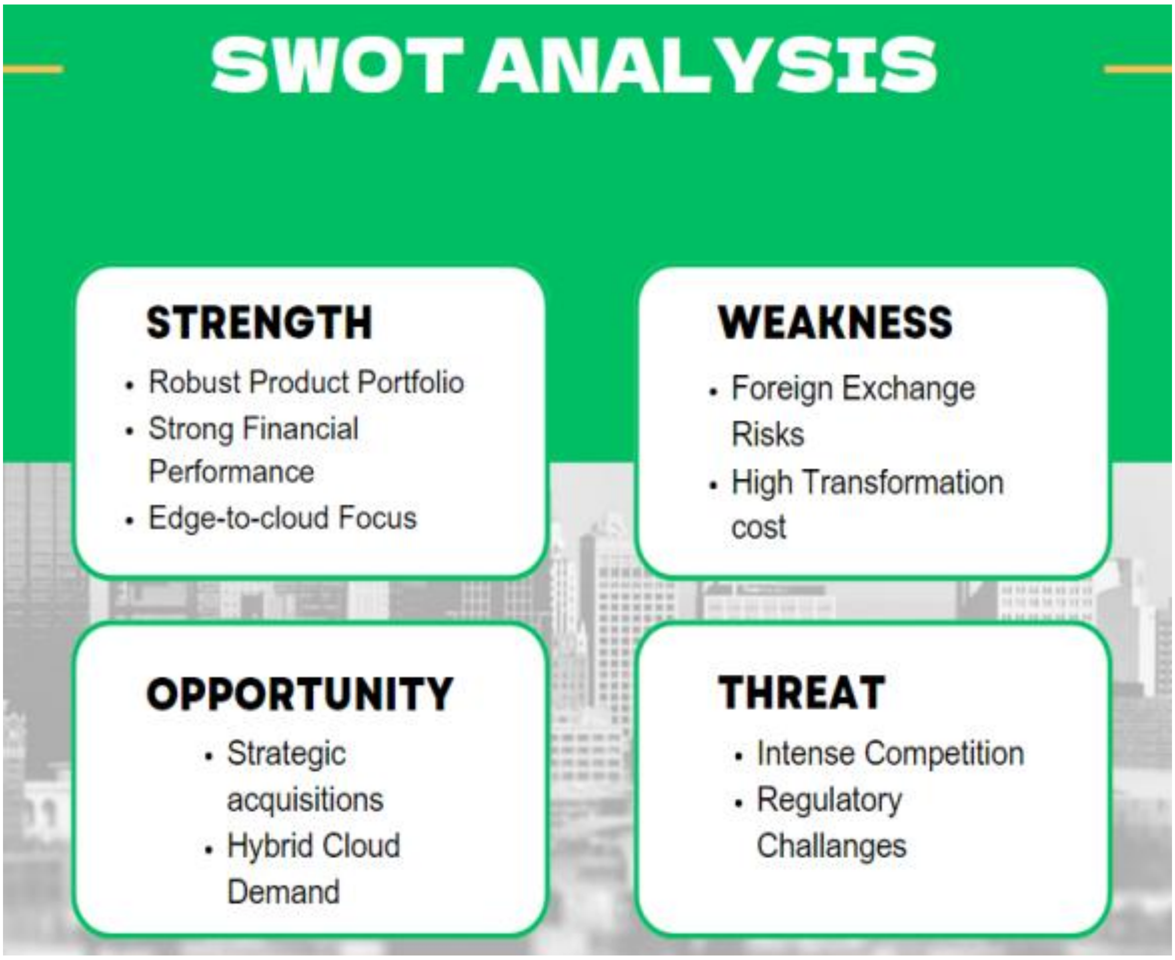
In terms of liquidity, IBM stands out with a Current Ratio of 2.5, showcasing its strong ability to meet short-term obligations and maintain operational stability. HPE's Current Ratio of 1.29 reflects moderate liquidity, suggesting it is reasonably positioned to cover its liabilities but falls behind IBM's superior liquidity management. Cisco, with a Current Ratio of 0.96, and Oracle, at 0.72, exhibit even lower liquidity, which could pose challenges in meeting immediate financial obligations without external support. Compared to HPE, Cisco and Oracle's lower liquidity metrics highlight areas where HPE holds a relative advantage.

Gross Profit Margin

Oracle's Gross Profit Margin of 71.41% reflects outstanding cost management and operational efficiency, setting it apart as the most efficient among its peers. Cisco follows with a strong margin of 64.73%, demonstrating its ability to retain a significant portion of revenue after covering production costs. IBM's Gross Profit Margin of 55.45% highlights its solid performance, albeit at a lower level than Cisco and Oracle. In stark contrast, HPE's margin of 34.43% is the lowest, indicating higher costs relative to revenue. This highlights the pressing need for HPE to improve cost control measures to compete with the more efficient Cisco, IBM, and Oracle.

In summary, IBM exhibits strong financial performance, particularly in net income and liquidity. Cisco and Oracle are highly competitive, with Oracle excelling in ROE and Gross Profit Margin. In comparison, HPE's performance is weaker across profitability and efficiency metrics, although it shows relative strength in liquidity compared to Cisco and Oracle. Strategic improvements in cost management, equity utilization, and asset efficiency could help HPE close the gap with its more competitive peers.

SWOT ANALYSIS OF HPE



PORTER'S FIVE POINT ANALYSIS

Hewlett Packard Enterprise (HPE) operates in the competitive technology sector, offering products and services such as servers, storage, networking, and cloud solutions. Applying Porter's Five Forces framework provides insight into the competitive dynamics HPE faces:

1. Competitive Rivalry (Industry Competition)

Intensity of Competition: The technology industry is characterized by intense rivalry among established firms. HPE competes with major players like Cisco Systems, Dell Technologies, and IBM across various product lines. This high level of competition often leads to price wars, increased marketing expenditures, and continuous innovation efforts to maintain market share.

2. Threat of New Entrants

Barriers to Entry: Entering the enterprise technology market requires substantial capital investment, advanced technological expertise, and established brand recognition. These factors create significant barriers for new entrants. However, the rapid pace of technological innovation means that startups with disruptive technologies can occasionally overcome these barriers, posing a potential threat to established companies like HPE.

3. Bargaining Power of Suppliers

Supplier Influence: HPE relies on a global network of suppliers for components such as semiconductors and hardware. When there are few suppliers for a particular component, their bargaining power increases, potentially leading to higher input costs for HPE. Conversely, when multiple suppliers are available, HPE can negotiate better terms.

4. Bargaining Power of Buyers

Customer Influence: Consumers and enterprise clients have a wide array of choices in the technology market. This abundance of options enhances their bargaining power, enabling them to demand better features, lower prices, and superior service. HPE must continuously innovate and offer competitive pricing to retain and attract customers.

5. Threat of Substitutes

Alternative Solutions: The threat of substitutes in HPE's market is significant. or instance, the increasing adoption of cloud-based solutions reduces the demand for traditional on-premises servers and storage solutions.PE needs to adapt by diversifying its product offerings and investing in emerging technologies to mitigate this threat.

By understanding these forces, HPE can develop strategies to enhance its competitive position, such as investing in research and development, strengthening supplier relationships, and expanding into emerging markets.

PROJECTIONS

Projected Income Statement (2023-2034):

Report Date	10/31/2023	10/31/2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Sales Revenue	28,588	30,127										
Total Revenue	**29,135**	**30,127**	**31,043**	**32,015**	**33,049**	**34,149**	**35,317**	**36,560**	**37,884**	**39,293**	**40,790**	**42,385**
Direct Costs	18,513	19,754	19,880	20,380	20,930	21,524	22,165	22,857	23,601	24,401	25,261	26,181
Gross Profit	10,622	10,373	11,163	11,634	12,119	12,625	13,152	13,703	14,282	14,892	15,529	16,204
Selling General & Admin	5,160	4,871	5,401	5,587	5,777	5,980	6,195	6,416	6,656	6,908	7,175	7,460
Research & Development	2,349	2,246	2,530	2,683	2,839	2,998	3,164	3,334	3,508	3,694	3,883	4,082
Total Indirect Operating Costs	8,150	7,688	7,931	8,269	8,616	8,978	9,359	9,751	10,164	10,601	11,058	11,541
Operating Income	**2,472**	**2,685**	**3,232**	**3,365**	**3,503**	**3,647**	**3,793**	**3,952**	**4,118**	**4,291**	**4,471**	**4,662**
Interest Income	(539)	(612)	(624)	(653)	(681)	(707)	(738)	(768)	(799)	(829)	(865)	(899)
Total Non-operating Income	(487)	121	(624)	(653)	(681)	(707)	(738)	(768)	(799)	(829)	(865)	(899)
Earnings Before Tax	1,985	2,806	2,608	2,712	2,822	2,940	3,055	3,184	3,319	3,462	3,606	3,764
Taxation	205	374	378	477	583	698	819	950	1,090	1,242	1,401	1,575
Net Income	**2,025**	**2,579**	**2,230**	**2,235**	**2,239**	**2,242**	**2,236**	**2,234**	**2,228**	**2,220**	**2,205**	**2,189**

HPE's projected income statement from 2023 to 2034 outlines expected financial performance:

- **Sales Revenue**: Expected to grow from $28,588 million in 2023 to $42,385 million by 2034 due to market scope and product innovation. According to IDC, HPE currently has a 5% share of the global server market.
- **Total Revenue:** Forecasted to increase from $29,135 million to $42,385 million, reflecting sustained business growth. Accordingly, in FY2023, there was a 3% growth in revenue from HPE's Intelligent Edge segment.
- **Direct Costs (COGS**): Projected to rise from $18,513 million to $26,181 million, highlighting expanding operations and production with the help of cost-effective programs in place.
- **Operating Income:** Anticipated to grow from $2,472 million to $4,662 million, showing improvements in operational efficiency.
- **Net Income:** Expected to grow from $2,025 million to $2,189 million, holding constant margins.

Assumptions:

Assumptions	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Sales	3.04%	3.13%	3.23%	3.33%	3.42%	3.52%	3.62%	3.72%	3.81%	3.91%
COGS/sales	64.04%	63.66%	63.33%	63.03%	62.76%	62.52%	62.30%	62.10%	61.93%	61.77%
SGA/Sales	17.40%	17.45%	17.48%	17.51%	17.54%	17.55%	17.57%	17.58%	17.59%	17.60%
R&D/Sales	8.15%	8.38%	8.59%	8.78%	8.96%	9.12%	9.26%	9.40%	9.52%	9.63%
Tax/Earnings Before Tax	14.48%	17.59%	20.67%	23.74%	26.80%	29.84%	32.86%	35.87%	38.86%	41.84%
Interest Income/Revenue	-2.01%	-2.04%	-2.06%	-2.07%	-2.09%	-2.10%	-2.11%	-2.11%	-2.12%	-2.12%
Other Operating Expense/ Sales	0.21%	0.22%	0.22%	0.24%	0.26%	0.28%	0.30%	0.33%	0.36%	0.38%

- **Sales Growth Rate (3.04% to 3.91%):** Driven by rising demand for hybrid cloud solutions, a segment contributing 30% of HPE's total revenue.
- **COGS to Sales Ratio (64.04% to 61.77%):** Reductions stem from automation initiatives and AI-driven supply chain management.
- **SG&A to Sales Ratio (17.40% to 17.60%):** Remains stable due to operational discipline and cost control measures.

- **R&D to Sales Ratio (8.15% to 9.63%):** Increases as HPE invests $2 billion annually in emerging technologies like AI and edge computing.
- **Tax Rate (14.48% to 41.84%):** Rises as higher profitability leads to increased tax obligations.
- **Interest Income/Revenue**: Interest income as a percentage of revenue is expected to remain stable around -2.01% to -2.12%, reflecting consistent financing costs.

Projected Balance Sheet:

Report Date	10/31/2023	10/31/2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Cash & Equivalents	4,270	14,846										
Cash & Equivs & ST Investments	4,270	14,846	7,686	8,112	8,563	9,043	9,553	10,098	10,676	11,293	11,947	12,652
Receivables (ST)	7,024	7,420	8,096	8,385	8,695	9,022	9,373	9,743	10,138	10,558	11,005	11,482
Inventories	4,607	7,810	5,128	5,759	6,431	7,144	7,900	8,705	9,566	10,483	11,462	12,512
Total Current Assets	**18,948**	**33,457**	**20,910**	**22,256**	**23,689**	**25,209**	**26,827**	**28,546**	**30,379**	**32,334**	**34,414**	**36,646**
Gross Property Plant & Equip	11,969	12,154	12,560	13,331	13,953	14,302	14,388	14,357	14,441	14,849	15,655	16,772
Accumulated Depreciation	5,980	6,490	407	487	564	631	685	732	784	858	957	1,083
Net Property Plant & Equip	**5,989**	**5,664**	**12,153**	**12,844**	**13,389**	**13,671**	**13,703**	**13,625**	**13,657**	**13,991**	**14,698**	**15,689**
Intangible Assets	18,642	18,596	20,932	21,683	22,466	23,279	24,129	25,025	25,969	26,967	28,019	29,135
Other Assets	2,772	3,082	2,834	2,987	3,189	3,405	3,638	3,883	4,141	4,420	4,715	5,035
Total Assets	**57,153**	**71,262**	**56,830**	**59,771**	**62,734**	**65,564**	**68,296**	**71,079**	**74,146**	**77,713**	**81,846**	**86,506**
Accounts Payable & Accrued Exps	13,162	16,240	16,754	17,781	18,841	19,933	21,063	22,236	23,458	24,731	26,061	27,457
Other Current Liabilities	3,852	4,959	4,731	5,020	5,327	5,652	5,997	6,365	6,758	7,175	7,624	8,100
Total Current Liabilities	**21,882**	**25,973**	**21,485**	**22,801**	**24,168**	**25,584**	**27,060**	**28,601**	**30,216**	**31,906**	**33,684**	**35,557**
LT Debt & Leases	7,487	13,504	9,297	10,269	10,276	9,841	10,299	11,515	12,064	11,587	11,557	12,933
Other Liabilities	6,546	6,905	6,364	7,629	7,895	7,793	8,692	10,423	11,475	11,470	11,919	13,771
Total Liabilities	**35,971**	**46,446**	**37,146**	**40,698**	**42,340**	**43,218**	**46,050**	**50,539**	**53,754**	**54,962**	**57,160**	**62,260**
Total Equity	**21,182**	**24,816**	**19,684**	**19,073**	**20,395**	**22,345**	**22,246**	**20,540**	**20,391**	**22,750**	**24,686**	**24,246**

The projected balance sheet outlines HPE's expected financial position from 2023 to 2034:

- **Cash & Equivalents**: Forecasted to rise from $4,270 million to $12,652 million, reflecting strong liquidity. HPE generated $3 billion in free cash flow in FY2023.
- **Total Current Assets**: Projected to increase from $18,948 million to $36,646 million, demonstrating strong asset management.
- **Net Property, Plant & Equipment (PPE)**: Expected to expand from $5,989 million to $15,689 million, driven by investments in green data centres.
- **Total Current Liabilities**: Estimated to grow from $21,882 million to $35,557 million, reflecting operational scaling.
- **Total Equity**: Anticipated to reach $24,246 million, driven by share buybacks and retained earnings.

Assumptions:

Assumptions	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Cash/Sales	24.76%	25.34%	25.91%	26.48%	27.05%	27.62%	28.18%	28.74%	29.29%	29.85%
AR/Sales	26.08%	26.19%	26.31%	26.42%	26.54%	26.65%	26.76%	26.87%	26.98%	27.09%
Inventories/Sales	16.52%	17.99%	19.46%	20.92%	22.37%	23.81%	25.25%	26.68%	28.10%	29.52%
Other Assets/Sales	9.13%	9.33%	9.65%	9.97%	10.30%	10.62%	10.93%	11.25%	11.56%	11.88%
Depreciation/Fixed assets	3.24%	3.65%	4.04%	4.41%	4.76%	5.10%	5.43%	5.78%	6.12%	6.46%
Fixed Assets/Sales	40.46%	41.64%	42.22%	41.88%	40.74%	39.27%	38.12%	37.79%	38.38%	39.57%
AP. Acr Exp etc/Sales	53.97%	55.54%	57.01%	58.37%	59.64%	60.82%	61.92%	62.94%	63.89%	64.78%
Other CL/sales	15.24%	15.68%	16.12%	16.55%	16.98%	17.41%	17.84%	18.26%	18.69%	19.11%
Intangible assets/sales	67.43%	67.73%	67.98%	68.17%	68.32%	68.45%	68.55%	68.63%	68.69%	68.74%
LT Debt/Total Assets	16.36%	17.18%	16.38%	15.01%	15.08%	16.20%	16.27%	14.91%	14.12%	14.95%
Other Liabilities/sales	20.50%	23.83%	23.89%	22.82%	24.61%	28.51%	30.29%	29.19%	29.22%	32.49%

- **Cash/Sales:** Cash as a percentage of sales is projected to increase from 24.76% in 2025 to 29.85% in 2034, reflecting efficient cash management strategies.
- **Accounts Receivable/Sales (AR):** AR to sales ratio remains stable, increasing from 26.08% in 2025 to 27.09% in 2034, indicating strong receivables management.
- **Inventories/Sales:** Inventories to sales ratio is projected to increase from 16.52% in 2025 to 29.52% in 2034, indicating an increase in inventory levels to support business growth.
- **Depreciation/Fixed Assets:** Depreciation as a percentage of fixed assets is projected to increase from 3.24% in 2025 to 6.46% in 2034, reflecting aging assets and capital expenditures.
- **Fixed Assets/Sales**: Fixed assets to sales ratio will stabilize around 39.57% by 2034, supporting operational growth.
- **Accounts Payable (AP) & Accrued Expenses/Sales**: This ratio is projected to increase from 53.97% to 64.78%, reflecting increased operational obligations.
- **Other Current Liabilities/Sales:** Expected to rise from 15.24% in 2025 to 19.11% in 2034.
- **Intangible Assets/Sales:** Intangible assets are expected to remain consistent at approximately 68.74% of sales, reflecting HPE's investments in intellectual property and technology.
- **LT Debt/Total Assets**: Long-term debt as a percentage of total assets is projected to vary from 16.36% to 14.95%, indicating a controlled leverage strategy. This decreases as HPE repays $2 billion in long-term debt, improving its debt-to-equity ratio.

OVERVIEW OF KEY METRICS:

This analysis of HPE's financial forecasts for depreciation, EBIT, tax rates, operating cash flow (OCF), capital expenditures (CAPEX), changes in net working capital (NWC), and free cash flow (FCF) reflects its business strategy and market position over the decade.

1. Depreciation: Depreciation declines sharply from **($6,083) million in 2025** to **$125 million by 2034**, attributed to asset optimization and completion of major infrastructure depreciation cycles. The rise after 2031 suggests new investments in HPE's GreenLake services and data center expansions.

2. EBIT (Earnings Before Interest and Taxes): EBIT increases from **$2,608 million in 2025** to **$3,764 million by 2034**, reflecting HPE's expanding market share in hybrid cloud services and edge computing. The consistent growth aligns with HPE's 30% revenue contribution from GreenLake services (FY2023).

3. Tax Rate: Tax expenses rise from **$378 million to $1,575 million** as EBIT increases, reflecting higher profitability. The tax increase is consistent with HPE's forecasted margin improvements and entry into higher tax brackets.

4. Operating Cash Flow (OCF): OCF, initially negative in **2025 ($3,853 million)** due to capital outflows, turns positive in **2026 ($2,314 million)** and stabilizes around **$2,280 million to $2,314 million** thereafter, driven by growth in recurring revenue from HPE GreenLake's as-a-service model.

5. Capital Expenditures (CAPEX): CAPEX drops from **$6,489 million (2025)** to **$32 million (2029)** due to the completion of large-scale infrastructure projects. It then rises to **$991 million (2034)**, reflecting HPE's reinvestments in AI-powered infrastructure and sustainable data centres.

6. Increase in Net Working Capital (NWC): NWC investments fluctuate from **($574) million (2025)** to **$1,089 million (2034)**, driven by increased customer demand for HPE's Intelligent Edge and hybrid cloud solutions. The significant rise from **2031** reflects HPE's expanding enterprise contracts and inventory requirements.

7. Free Cash Flow (FCF): FCF is negative at **($9,768) million (2025)** due to upfront CAPEX but becomes positive from **2026 ($2,167 million)**, peaking at **$2,491 million (2029)** during HPE's operational efficiency phase. The decline to **$234 million (2034)** results from renewed investments to support GreenLake and edge computing growth.

Key Insights:

- **Early Investment Phase (2025–2029):** HPE's focus on GreenLake, AI-driven services, and edge computing drives high CAPEX but establishes future revenue streams.
- **Operational Efficiency (2029–2032):** Strong cash flow reflects HPE's successful shift to an as-a-service model, consistent with its 3% revenue growth in the Intelligent Edge segment (FY2023).
- **Growth Reinforcement (2032–2034):** Rising CAPEX and NWC support expansion in hybrid cloud and AI services, reinforcing HPE's competitive edge.

HPE's financial projections demonstrate a strategic balance between growth investments and profitability. The company's focus on hybrid cloud solutions, edge computing, and as-a-service models, combined with disciplined cost management, positions it for long-term market leadership and sustained value creation.

VALUATION

We used the Discounted Cash Flow (DCF) and Relative Valuation models to calculate HPE's target price over a 10-year period.

Discounted Cash Flow (DCF) Model: A rigorous DCF analysis was used to establish the intrinsic value of HPE stock, which reflects the company's ability to generate future cash flows. HPE's consistent cash flow expectations are based on its leadership in hybrid cloud services, AI-powered solutions, and edge computing technology. The DCF model is an essential tool for evaluating HPE's long-term financial health and value development prospects.

Weighted Average Cost of Capital (WACC):

HPE’s WACC, representing its average cost of financing, was calculated by evaluating:

- **Cost of Equity:** Calculated using the Capital Asset Pricing Model (CAPM), which considers the beta of HPE, a market risk premium, and a risk-free rate from 10-year U.S. Treasury bonds.
- **Beta**: HPE's stock volatility in relation to the market was determined by calculating its beta using a regression study with the S&P 500.
- **Cost of Debt:** Calculated using the risk-free rate plus a credit spread and based on yields from HPE's outstanding bonds and credit ratings.

Sales Growth Assumptions:

- HPE anticipates revenue growth from the enhancement of its GreenLake cloud services, contributing over 35% to annual recurring revenue growth (in FY2022).
- Supplying edge computing and AI services, aided by recent acquisitions, is expected to provide double-digit growth on an annual basis.

Terminal Value Assumptions:

- **Steady Growth Rate:** Expected at 4.5%-6%, reflecting HPE’s market strength regarding hybrid cloud solutions and AI integration.
- **Market Trends:** HPE is positioned to capitalize on the growing $150 billion edge computing market and the $400 billion hybrid cloud industry.

Capital Investments:

- **Fixed Asset Investment**: Expected to go from $85 million in 2024 and reach $165 million by 2034 on developments in GreenLake infrastructure and data centre investments.
- **Current Assets**: Further investments into receivables processing and inventory management provide support to HPE's active commercial contracts.

Funding Strategy and Capital Structure:

- **Debt and Equity Management:** HPE deploys a balanced approach. Meaningfully, during the expansion stage, they issue equity. During the taking down of stock in the buyback process to heighten the utility of their shareholders, during FY2023, HP repurchased $1.2 billion of shares.
- **Cash Generation:** Strong operational performance reduced reliance on external financing, with operating cash flow forecast of $2.3 billion by FY2034.

RELATIVE VALUATION

To support our recommendation, we conducted an in-depth relative valuation analysis for HPE, comparing it to industry peers such as IBM, Cisco, and Oracle.

We utilized four key valuation multiples—P/E ratio, EBITDA multiple, Sales multiple, and Book Value multiple—derived from competitor financials. These multiples were calculated and weighed for each segment, allowing us to estimate HPE's stock price at $36.45 based on the industry average.

	Cap Based on AVG	Price per share
P/E (forward or last earnings)	$ 94,772.99	$ 73.06
EBITDA multiplier	$ 63,824.02	$ 49.20
Sales multiplier	$ 168,216.59	$ 129.67
Book Value multiplier	$ (137,664.34)	$ (106.12)
	Average	$ 36.45

As of February 23, 2025, HPE's stock is trading at $21.14, suggesting it may still be undervalued according to our valuation.

Target Price Calculation

Alongside the Discounted Cash Flow (DCF) model, we performed a Relative Valuation to refine HPE's target price. We assigned equal weighting (50:50) to both approaches, leading to a final target price of $35.53.

Method	Weight	Price per Share
Relative Valuation	50%	$ 36.45
DCF	50%	$ 34.62
Target Price		$ 35.53

RECOMMENDATION

With HPE's current stock price at **$21.14**, our target price suggests an upside potential of approximately **5.4%.** Given HPE's strong performance and growth potential, we recommend a **Buy**.

For long-term investors, the current valuation presents an attractive entry point. However, monitoring key catalysts—such as industry trends and company developments—will be crucial in assessing whether HPE can reach our projected target price.

APPENDIX

Common size Income Statement

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Standardized Annual Income Statement										
Report Date	10/31/2015	10/31/2016	10/31/2017	10/31/2018	10/31/2019	10/31/2020	10/31/2021	10/31/2022	10/31/2023	10/31/2024
Currency	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Audit Status	Not Qualified	Not Qualified	Not Qualified	Not Qualified	Not Qualified	Not Qualified	Not Qualified	Not Qualified	Not Qualified	Not Qualified
Consolidated	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Scale	Millions	Millions	Millions	Millions	Millions	Millions	Millions	Millions	Millions	Millions
Sales Revenue	99.31%	99.27%	98.63%	98.55%	98.43%	98.26%	98.22%	98.31%	98.12%	100.00%
Total Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Direct Costs	70.87%	70.34%	68.97%	68.98%	66.40%	67.61%	65.49%	65.55%	63.54%	65.57%
Gross Profit	29.13%	29.66%	31.03%	31.02%	33.60%	32.39%	34.51%	34.45%	36.46%	34.43%
Selling General & Admin	15.40%	15.60%	17.34%	15.72%	16.84%	17.14%	17.74%	17.34%	17.71%	16.17%
Research & Development	4.49%	4.58%	5.15%	5.39%	6.32%	6.95%	7.12%	7.18%	8.06%	7.46%
Other Operating Expense	2.22%	1.19%	0.96%	0.04%	-0.02%	0.10%	0.06%	0.17%	0.00%	0.33%
Total Indirect Operating Costs	25.75%	25.71%	27.95%	24.10%	28.21%	32.61%	29.67%	30.61%	27.97%	25.52%
Operating Income	3.38%	3.95%	3.08%	6.92%	5.39%	-0.21%	4.84%	3.83%	8.48%	8.91%
Interest Income	-0.56%	-1.12%	-2.05%	-1.79%	-1.63%	-1.80%	-1.52%	-1.75%	-1.85%	-2.03%
Gains on Sale of Assets	#VALUE!	4.83%	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Foreign Exchange Gains	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Other Non-Operating Income	0.00%	0.63%	-0.01%	-4.39%	1.50%	0.13%	8.95%	0.24%	0.18%	2.43%
Total Non-Operating Income	-0.56%	4.34%	-2.06%	-6.18%	-0.13%	-1.67%	7.43%	-1.51%	-1.67%	0.40%
Earnings Before Tax	2.82%	8.29%	1.02%	0.75%	5.26%	-1.89%	12.26%	2.32%	6.81%	9.31%
Taxation	-1.90%	1.83%	-0.57%	-5.65%	1.73%	-0.44%	0.58%	0.03%	0.70%	1.24%
Equity Earnings	#VALUE!	-0.15%	-0.08%	0.12%	0.07%	0.25%	0.65%	0.75%	0.84%	0.49%
Net Income	4.72%	6.31%	1.19%	6.18%	3.60%	-1.19%	12.33%	3.05%	6.95%	8.56%
Net Income to Common	4.72%	6.31%	1.19%	6.18%	3.60%	-1.19%	12.33%	3.05%	6.95%	8.48%
Average Shares Basic	3.46%	3.42%	5.70%	4.96%	4.64%	4.80%	4.71%	4.57%	4.46%	4.34%
EPS Net Basic	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.01%	0.01%
EPS Continuing Basic	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.01%	0.01%
Average Shares Diluted	3.52%	3.47%	5.80%	5.03%	4.69%	4.80%	4.79%	4.64%	4.52%	4.44%
EPS Net Diluted	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.01%	0.01%
EPS Continuing Diluted	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.01%	0.01%
Shares Outstanding	3.34%	3.32%	5.53%	4.61%	4.44%	4.77%	4.66%	4.50%	4.40%	4.31%

CISCO

Report Date	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Liquidity Ratios										
Current Ratio	3.23	3.16	3.03	2.29	1.51	1.72	1.49	1.43	1.38	0.91
Quick Ratio	3.16	3.11	2.98	2.22	1.46	1.67	1.43	1.33	1.27	0.83
Cash Ratio	0.29	0.31	0.42	0.33	0.37	0.47	0.35	0.28	0.32	0.18
Asset Management Ratios										
ventory / Stock Turnover	11.97	15.03	11.00	10.14	13.91	13.74	11.50	7.52	5.83	5.63
Total Asset Turnover	0.43	0.40	0.37	0.45	0.53	0.52	0.51	0.55	0.56	0.43
Leverage Ratios										
Debt Ratio	0.47	0.48	0.49	0.60	0.66	0.60	0.58	0.58	0.56	0.63
Debt – Equity Ratio	0.36	0.39	0.39	0.47	0.43	0.31	0.22	0.21	0.15	0.43
Profitability Ratios										
Gross Profit Margin	0.60	0.63	0.63	0.62	0.63	0.64	0.64	0.63	0.63	0.65
Operating Profit margin	0.22	0.26	0.25	0.25	0.27	0.28	0.26	0.27	0.26	0.23
Net Profit margin	0.18	0.22	0.20	0.00	0.22	0.23	0.21	0.23	0.22	0.19
Return on assets	0.08	0.09	0.07	0.00	0.12	0.12	0.11	0.13	0.12	0.08
ROE	0.15	0.17	0.15	0.00	0.35	0.30	0.26	0.30	0.28	0.23

ORACLE

Report Date	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Liquidity Ratios										
Current Ratio	4.13	3.74	3.08	3.96	2.49	3.03	2.30	1.62	0.91	0.72
Quick Ratio	4.11	3.73	3.07	-	-	-	-	-	-	-
Cash Ratio	1.42	1.17	0.90	1.13	1.10	2.17	1.25	1.10	0.42	0.33
Asset Management Ratios										
ventory / Stock Turnover	23.99	35.28	24.90	-	-	-	-	-	-	-
Total Asset Turnover	0.34	0.33	0.28	0.29	0.36	0.34	0.31	0.39	0.37	0.38
Leverage Ratios										
Debt Ratio	0.56	0.58	0.60	0.67	0.80	0.90	0.96	1.06	0.99	0.94
Debt – Equity Ratio	0.82	0.85	0.89	1.23	2.37	5.73	14.51	-11.59	80.54	8.76
Profitability Ratios										
Gross Profit Margin	0.80	0.80	0.80	0.80	0.80	0.80	0.81	0.79	0.73	0.71
Operating Profit margin	0.36	0.34	0.34	0.34	0.34	0.36	0.38	0.26	0.26	0.29
Net Profit margin	0.26	0.24	0.25	0.10	0.28	0.26	0.34	0.16	0.17	0.20
Return on assets	0.09	0.08	0.07	0.03	0.10	0.09	0.10	0.06	0.06	0.07
ROE	0.20	0.19	0.17	0.08	0.51	0.84	2.62	-1.08	7.92	1.20

IBM

Report Date	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Liquidity Ratios										
Current Ratio	1.25	1.24	1.21	1.33	1.29	1.02	0.98	0.88	0.92	0.96
Quick Ratio	1.19	1.20	1.17	1.29	1.24	0.98	0.94	0.83	0.87	0.93
Cash Ratio	0.21	0.22	0.22	0.32	0.30	0.22	0.34	0.21	0.25	0.38
Asset Management Ratios										
ntory / Stock Turnover	22.06	26.47	26.80	27.11	25.36	25.11	20.69	15.69	17.94	23.74
Total Asset Turnover	0.79	0.74	0.68	0.63	0.65	0.51	0.47	0.43	0.48	0.46
Leverage Ratios										
Debt Ratio	0.90	0.87	0.84	0.86	0.86	0.86	0.87	0.86	0.83	0.83
Debt – Equity Ratio	2.96	2.34	1.90	2.26	2.12	2.60	2.64	2.38	2.10	2.22
Profitability Ratios										
Gross Profit Margin	0.50	0.50	0.48	0.46	0.46	0.47	0.48	0.55	0.54	0.55
perating Profit margin	0.19	0.18	0.14	0.13	0.15	0.13	0.08	0.11	0.12	0.14
Net Profit margin	0.13	0.16	0.15	0.07	0.11	0.12	0.08	0.10	0.03	0.12
Return on assets	0.10	0.12	0.10	0.05	0.07	0.06	0.04	0.04	0.01	0.06
ROE	1.01	0.92	0.65	0.33	0.52	0.45	0.27	0.30	0.07	0.33

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