HPE Competitive Analysis

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Presented by:
Yves Bourgeois

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Executive Summary

If there was ever a time to be excited about what is yet to come it is Hewlett Packard Enterprise in 2017. After splitting into two entities HP & HPE, divesting from low margin businesses and then acquiring new ones in high growth segments like SimpliVity, HPE is well positioned to win market share and new customers. Of course, HPE's partner ecosystem has also been revitalized. Hewlett Packard Enterprise has provided its partners with new marketing tools to enrich their customers' user experience and expanded solution offered to them.

Nevertheless, the competitive pressures have increased and new nimbler players have gained market share like Palo Alto Networks and others have combined forces like Dell and EMC. Cisco has also acquired new companies to compete against HPE's new acquisitions, such as AppDynamics, ContainerX, CloudLock, Synata, CliQr and Jasper Technologies.

In many segments, technological innovation is moving too fast for organic growth to work its way into the marketplace. Apart from growth through M&A, HPE can leverage its strong partner base and harness greater innovation by creating opportunity tools or by encouraging its partners to feed the innovation funnel. In summary, there are plenty of paths HPE can take to win in the marketplace.

A preliminary short list of M&A recommendations is established in this report. Further research is required to determine the legal environment of the VC funded opportunities to uncover any legal liabilities attached to any of these companies. Furthermore, the market valuations change daily and would require further review before market capitalizations as well as other financials can be deemed as most current and valid.

Based on a review of established players the first choice is Red Hat with the key criteria being, potential market size in 2020, compound annual growth rate (CAGR), revenues, and finally current valuation versus market capitalization. The second choice is A10 Networks based on their low market capitalization and high valuation. The third choice is Pure Storage having middle of the road ranking for these criteria. Despite having the highest potential market in 2020 and the best financials among the four contenders, Arista Networks is has too high a market cap versus its current valuation and also has a risky existing legal environment showing unfavorable rulings against it.

After reviewing VC funded opportunities, the first choice is Puppet Labs, followed by Pivot3 based on potential market size in 2020, CAGR, current sales and CB Insights Mosaic score. Chef Software would be the third choice based on these criteria. However, post-funding valuations are key to making a final decision. For example, one of the companies reviewed Viptela has a step up multiple of 7.87 for a total valuation of $900 million based on a valuation gain of $795 million. HPE team did a great job acquiring SimpliVity based on valuation and hopefully can continue making these kinds of deals.

This analysis will demonstrate how Hewlett Packard Enterprise can achieve stronger market positions and potentially larger profits and higher margins through the acquisition of established players and alternatively through the acquisition of venture funded entities. The list is by no means exhaustive, but provides a tantalizing dish of juicy fruit worth picking.

HP/HPE Restructuring

The corporate split was announced in October 2014 as part of a restructuring to revive its business and strategically narrow its market focus. HP sells PCs and printers, while Hewlett Packard Enterprise sells servers, storage, the cloud, networking, services, and software.

HP Inc. Printing and personal systems	Hewlett-Packard Enterprise Data center and infrastructure
Desktops	Servers
Laptops	
Tablets	Storage
Chromebooks	
Workstations	Networking
Displays and monitors	Software
Thin clients	
Printers	Cloud
Peripherals	
POS equipment	Services

Market Realist

Source: Hewlett Packard's Presentation

Investors have viewed the split as a positive evolution, as both companies can now focus on their core competencies. 57

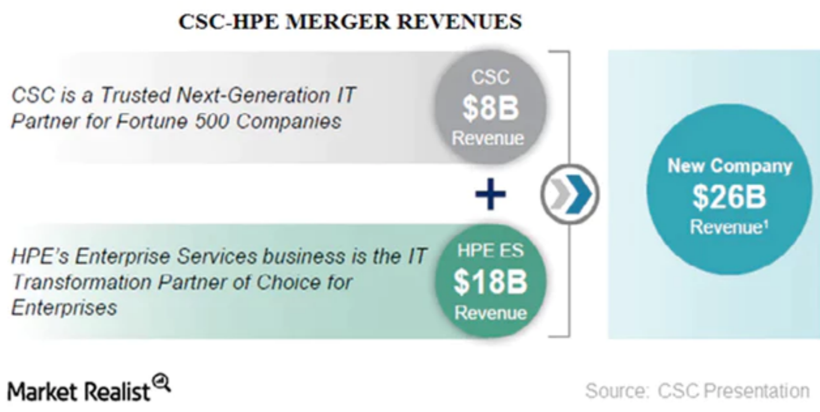
Last year on September 8th, Hewlett Packard Enterprise CEO Meg Whitman's interview with journalists from TV network CNBC, HPE is focusing on three key segments:

1- The traditional datacenter that still takes 85% of customer spend. The list of top competitors are Oracle, Lenovo, Cisco and Dell.
2- The software defined datacenter, otherwise known as composable infrastructure. In short, it provides customers with the ability to pull server, networking resources and storage as needed for their applications from a private cloud. HPE's newest product in this segment is called Synergy.
3- Campus, branch and edge computing, otherwise known as IoT. For example, the utilization of smart sensors for jet engines, hospital beds or in highway sensors for our future self-driving cars. 9

How HPE Continues to Streamline Its Business

Spin-offs with Micro Focus

As seen earlier, Hewlett Packard Enterprise (HPE) split from Hewlett-Packard (HPQ) in late 2015. In the fall of 2016, Hewlett Packard Enterprise published in local media the spin-off and merger of its non-core software assets with Micro Focus. HPE's non-core software assets include the company's Application Delivery Management (ADM), Big Data, Enterprise Security, IT/IM (Information Technology/Management), Operations Management, and Governance business segments. According to a Hewlett Packard Enterprise spokesperson, this transaction is estimated at $8.8 billion. HPE will own at least 50% of the new combined company. 58



In May 2016, Computer Science (CSC) published on various media, its acceptance of a merger with the Enterprise Services business of Hewlett Packard Enterprise (HPE). After HPE completes its spin-offs with CSC and Micro Focus, annual services revenue is forecast to reach $28 billion. HPE has determined that its recurring revenue stream will account for 60% of its operating profits once the spin-offs are finalized. 56

HPE's split from H3C

According to an article from *StreetInsider*, HPE announced the closing of a transaction with an affiliate of the China-based (FXI) Tsinghua Holdings "to create New H3C Group, the leading Chinese provider of technology infrastructure" earlier this year.

The deal shows that the affiliate Unisplendour, acquired a 51% stake in New H3C business for $2.3 billion dollars. A key part of the deal included H3C Technologies as well as HPE's Server, Technology, and Storage Services segments in the People's Republic of China. HPE stated that it would distribute cash to its shareholders through share repurchase program.

In fiscal 2016, HPE also finished the divestiture of its investment in Mphasis. In HPE's fiscal 4Q16 earnings call, its CEO, Meg Whitman, said that these spin-offs and mergers would allow the company to "be nimbler, provide cutting edge solutions, play in higher growth markets, and have an enhanced financial profile."

Investors believe HPE is heading in the right direction with several mergers and spin-offs over the previous 15 months. The share price of the company has increased by over 55% since November 2015. 56

Recent Acquisitions

Regarding Hybrid IT, HPE's fiscal-year 2017 outlook from-October of 2016 described a strategy focused on becoming the "industry's leading provider of hybrid IT". HPE estimates that the market is valued at more than $250 billion and will grow 2% to 3% annually. Customers are lowering their costs by moving from on-premise data centers to the public cloud. However, they are discovering that the public cloud has security risks and remains costly. HPE is seeking the middle ground by "managing workloads both on-site and off-loaded to the cloud" with a hybrid model leveraging software-defined infrastructure for multi-cloud environments. In addition, HPE's recent acquisition of Cloud Cruiser, a leading provider of cloud consumption analytics, will give its customers a management tool to effectively manage expenditures tied to the public and private cloud. 4

SimpliVity Acquisition

In the hyperconverged infrastructure market, which HPE expects growing at a compound annual growth rate (CAGR) of at least 25% to nearly $6 billion by the year 2020. In this market, Nutanix's 52% market share, is well ahead of competitors like HPE with a 3% share and SimpliVity's with an 18% share. "Thus far, Cisco has seen mixed success at best with its own hyperconverged solution, HyperFlex (built on Springpath's software), and its existing SimpliVity partnership will likely be terminated," wrote Oppenheimer analyst Ittai Kidron. "Cisco is left with limited options to fill its portfolio gaps and may acquire Nutanix. SimpliVity's top competitors are Cisco, Dell/EMC and Nutanix. 46, 54,60

On January 17, 2017, Hewlett Packard Enterprise (HPE) published in the media its intent to acquire SimpliVity, a leading maker of software-defined, hyperconverged infrastructure, for about $650 million in cash. Based on the opinion from experts at Pitchbook.com, this is half of what SimpliVity was valued in March 2015 at $1.16 billion. This is a much better deal than what Cisco paid $3.7 billion for their latest acquisition which was double their latest valuation was at $1.6 billion. Congratulations should be awards to the HPE investment team for their savvy deal making. 75,76

SimpliVity funding rounds and valuations

1. **October 2009:** $1.5M round | $2M valuation
2. **September 2010:** $9.2M | $16.5M
3. **August 2012:** $7M | $24.5M
4. **September 2012:** $25M | $106.5M
5. **November 2013:** $58M | $371.3M
6. **March 2015:** $175M | $1.16B

The hyperconverged market was estimated at $2.4 billion in 2016, and may grow at a compound annual growth rate of 25 percent, to $6 billion, by 2020. By merging HPE's best-in-class infrastructure, cloud management and automation software with SimpliVity's industry-leading software defined data management product, HPE and its partners will give strong competition to closest rival Nutanix. Meg Whitman, President and CEO, Hewlett Packard Enterprise said "More and more customers are looking for solutions that bring them secure, highly resilient, on-premises infrastructure at cloud economics. That's exactly where we're focused." 3

The following quote in CRN may explain one of the reasons that HPE chose SimpliVity over Nutanix, because Nutanix does not offer a fully integrated solution.

Nutanix is taking an approach around specific use cases like VDI (virtual desktop infrastructure). We are taking a much broader view of this. It is not just VDI. It is backup and recovery and enterprise workloads that will run on this future architecture called hyperconverged and Composable. We will have a full integrated experience second to none, which Nutanix today does not address with their solution. 71

This acquisition also helps defend the company's strong server and storage installed base. SimpliVity gives HPE an opportunity to cut in a fierce competitor, namely Cisco's data center business. SimpliVity software packaged with servers of its new parent company HPE greatly improves their competitive position in the marketplace. 53

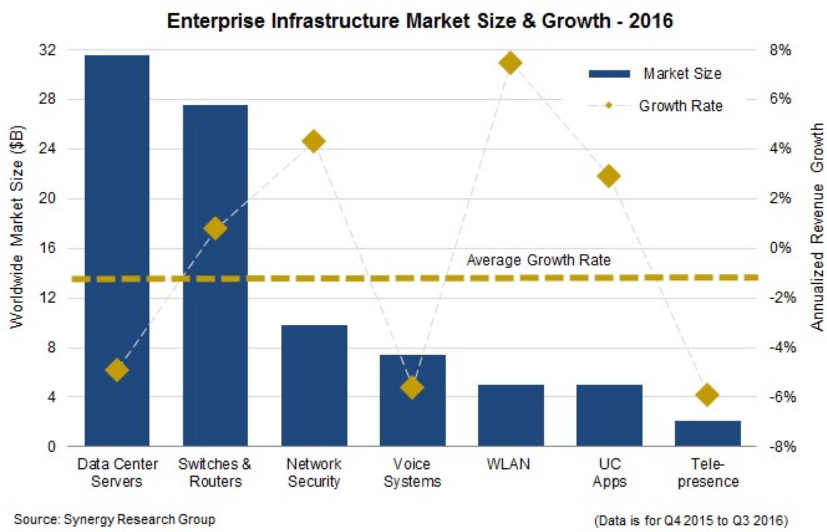
Most vendors fit into either the bottom left (Niche Players) or the top right quadrants (Leaders). The chart on the left, shows maturity of the HCI segment showing an increase in vendors from 13 in 2014 to 19 vendors in 2016. Nevertheless, the HCI market segment is still moving in new directions with a forecasted growth potential of 50 percent. Regarding an article published by IDC. HPE is well positioned to further improve its market position in 2017. In addition to creating text ads and impressions that use keywords that best reflect this market segment, the top keywords to optimize are integrated systems, hyperconverged infrastructure, HCI, software defined datacenter and SDDC.

Looking to 2017 and 2018, the top competitors in this segment, such as Nutanix, EMC and HPE will need to distinguish themselves through value-added solutions to maintain their healthy margins. 53

Divestures

Hewlett Packard Enterprise's server business, which Garcha values at $8.9 billion, could interest a rising competitor Huawei. The business unit has $15.4 billion in forecasted fiscal 2017 sales and $1 billion in EBITDA based on estimated from Credit Suisse. The storage segment, which Credit Suisse thinks will generate $600 million in fiscal 2017 EBITDA from approximately $4 billion in sales, could attract a competitor like Lenovo. The analyst values the business at nearly $8 billion. HPE's technology services unit, which delivers consulting and IT support, could be a possible candidate for a leveraged buyout. Credit Suisse values this business at around $7.4 billion. Finally, financial analyst Kulbinder Garcha of Credit Suisse suggested that Hewlett Packard Enterprise should divest its ownership stake in Chinese data networking business H3C Technologies, following to possible paths, with an IPO or being sold to another company. HPE sold a 51% stake to in the business to Tsinghua Holdings for $2.3 billion in 2015. The analyst values the positon in the JV at $2.2 billion. The core remaining would be the switching business and the Aruba Networks division. 55

Enterprise Spending Snapshot in 2016



A recent study from Synergy Research Group says that among seven key enterprise infrastructure segments, vendor revenues have decreased in the past 12 months by 1% on an annualized basis. Aggregate revenues for the same period reached $88 billion. Additionally, revenue is averaging $20-23 billion.

Data center servers comprise the largest market segment. Yet revenues here declined by almost 5% in 2016. Switches & routers experienced a 1% growth rate. WLAN grew the fastest while the enterprise voice and telepresence segments continued to perform below other market segments from aggressive pricing and market disruption.

Cisco is the market leader in six of the seven segments, but ranked fifth for datacenter servers. Looking at these seven segments in aggregate, over the last 12 months Cisco's market share was 33% and stayed unchanged from the prior year. HPE leads in data center servers and is in second place for both routers, switches and WLAN. Its aggregated market share over the same period was 16%. Other market segments at within the lower rankings belong to Dell/EMC (enterprise data center servers), Avaya (voice systems for the enterprise), Juniper (security routers), Microsoft (UC programs) and Polycom (telepresence systems). Vendors that increased their market share more recently include Palo Alto Networks (network security), Arista Networks (Ethernet switching), Huawei (Ethernet switching), HPE (WLAN) and Dell EMC (servers).

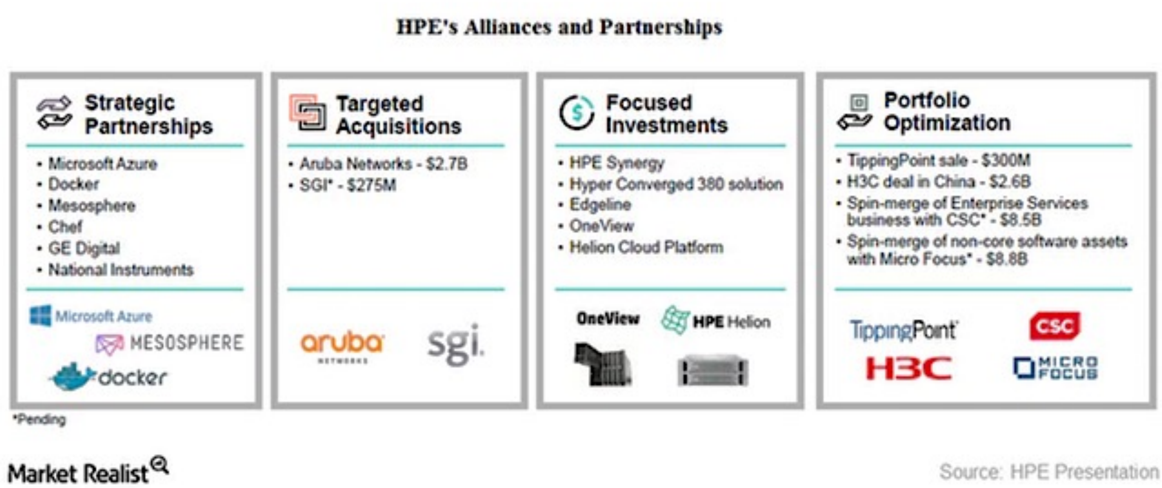
Over the last few years, Cisco has kept is market share of 33% of the enterprise infrastructure market. Hewlett Packard Enterprise is the only large competitor that can challenge Cisco's dominance. In a few years, the EMC/Dell entity will also provide greater competition to Cisco. The points of entry are the growth of hosted solutions and cloud. 61

Market Forces

CapEx Migration of HPE Customers to Cloud Service Providers
Looking at the Channel of Hybrid Infrastructure, a paradigm shift is being built where CapEx spending is steadily moving to OpEx spending among HPE's customer base. Lief Morin, KeyInfo president, HPE Channel Partner said during a HPE Global Partner Conference in Boston, MA last year, "*The whole concept of cloud is a shift from on premise CapEx to consumption via an OpEx model... which basically shifts all that CapEx investment to the cloud providers.*" What this means for HPE.com is a growing market for more hardware sold to a valuable market segment, namely cloud providers. 5

HPE's Marketing Strategy in 2017

Partner Ecosystem
Historically, the lion's share of revenues remains embedded with partners and this business relationship will continue. In summary, 75% of HPR revenues come from its ecosystem of partnerships, distributors and field partners.



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Competitive Landscape

M&A Strategy
The pace of change is speeding up in many market spaces where HPE is a significant and influential player. HPE has made several key acquisitions and divestitures in 2016. And Competitors like Dell acquiring EMC and Cisco also making acquisitions, such as AppDynamics, ContainerX, CloudLock, Synata, CliQr and Jasper Technologies. 52

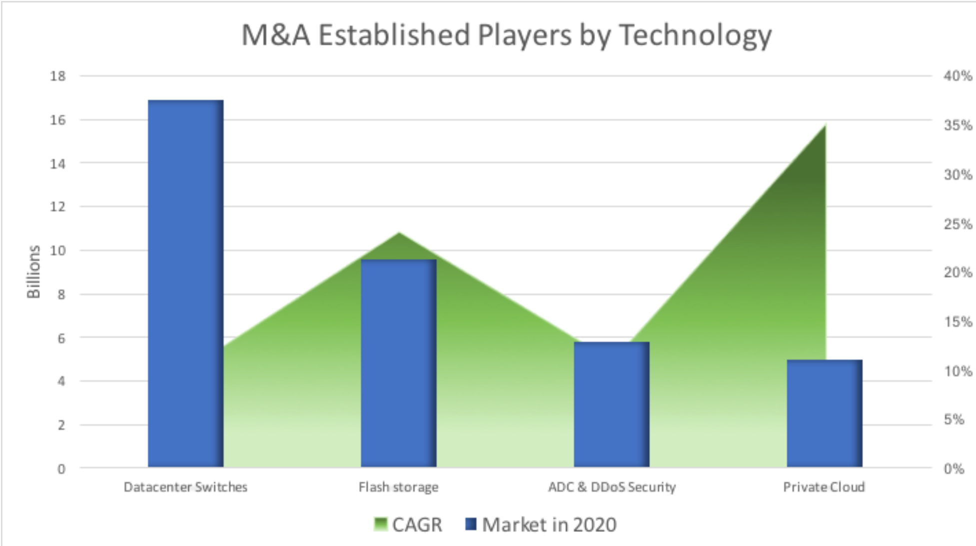
Dell/EMC is possibly over-leveraged and will achieve slower growth in the next few years. Cisco lacks a popular data center storage product. The market is shifting and mini data centers on factory floors that can analyze information on the site are gaining in popularity. HPE is well positioned to offer this type of datacenter gear. For example, HPE has gear that assembles networking, storage, and computing power. For example, HPE's recent partnerships with General Electric's digital business and smaller companies, such as Docker and Mesosphere. 23

Established Players Opportunities

#	Takeover Target	Global Market Size by 2020	Annual Growth Rate (CAGR)	HPE Solution(s)	Technology	Competitor Threat	Market Position/ Key Advantage
1	Arista Networks	$16.8B* Routers +Switches	10%	None	Networking - datacenter switching	Cisco, Juniper, Extreme Networks	Fill hole in HPE portfolio. Arista leader in edge & wireless solutions. Targets Cisco customers.
2	Pure Storage	$9.6B	24.0%	3Par StoreServ 8000 series & 20000 series.	All flash storage	Dell/EMC, Hitachi, IBM, Kaminario, NetApp, Tegile, Tintri	Leader in flash storage, new FlashBlade array maintains leadership. Kaminario is alternative target for its analytics capabilities missing from 3PAR.
4	A10 Networks	$5.8B	11.0%	Moonshot Converged System	Application Delivery Controller (ADC) & DDoS Security	Alcatel-Lucent, Barracuda Netw., Cisco, Citrix, F5, Juniper	A10's ADC & security solutions improves HPE's data center solutions.
13	Red Hat	$5.0B	35.0%	CloudSystem Ent. 8.1, Cloud Svc. Automation 4.5, Op. Orchestration 10.2, Matrix Op.Env. 7.4	Private Cloud	BMC, Cisco, Citrix, Huawei, IBM, Microsoft, Red Hat, Vmware,	Market leader with strong pre-integrated market tooling sets.

40, 41, 42, 43, 44, 45, 47

Note: With the recent SimpliVity acquisition, Pivot3 is now a less attractive target.



Takeover Target	Global Market Size by 2020	Annual Growth Rate (CAGR)	Market Cap. 9/16 (Millions)	Revenues last 4Q (Millions)	Valuation (CB Insights) Millions	Largest Investors
Arista Networks	16.8	10.0%	6,570	1,287	2,730	Capital Research Global Investors, Wellington Mgmt. Co., Vanguard Grp.
Pure Storage	9.6	24.0%	2,380	650	3,100	Greylock XIII Grp., Wellington Mgmt., T Rowe Price
A10 Networks	5.8	11.0%	530	223	885	Summit Partners LP.
Red Hat	5	35.0%	1,360	1,790	935	T Rowe Price, Vanguard Grp., Jennison Assoc.

Arista Networks

Arista Networks maintains its market leadership position and is one of the fastest-growing players in it, with revenue growth estimated at 40.6% in 2015. As of 2015, the company has approximately 3,700 customers and is ranked No. 3 for datacenter networking with an 8.5% revenue share. Arista is mainly focuses on data center switching and is expanding its product portfolio to offer data center interconnection, a critical element for cloud-based corporate infrastructures. The company offers a valuable suite, such as an Extensible Operating System (EOS), that can easily be deployed within most data center management and orchestration architectures. Arista delivers comprehensive monitoring capabilities, producing measurements and network-wide telemetry through real-time data streaming. 19

Arista has partnerships with VMware NSX and Hewlett Packard Enterprise. Arista also has a partnership with HPE. At the HPE Discover London Conference in 2016, company spokesperson Andy Bechtolsheim, spoke about the strength of their relationship with HPE.

Founder and chairman of Arista, Andy Bechtolsheim talked about how Arista's cloud networking capabilities and HPE's infrastructure were complementary offerings that worked well together. Through an extension, Arista Networks can be utilized with the OneView dashboard and deliver a virtual machine container. 25

Arista Technical Profile

- Arista gives its many customers greater malleability through the programmability of its Linux based EOS platform and offers seamless integration with a broad range of software orchestration and SDN enterprise solutions.
- Arista offers a centralized network state (NetDB), a single control point (CloudVision), application awareness GUI and network telemetry, along with extensible APIs and software development kits (SDK).
- Arista provides a portfolio of products with different form factors, including some large fixed configuration switches, enabling the installation of rightsized and often cost-effective solutions for every environment.
- Arista offers very scalable solutions with high-performance, deep buffers and large address tables with low latency to handle the demands of modern datacenter applications that scale efficiently for the cloud.
- Unlike several of its competitors, Arista Networks does not offer an interface for converged storage networks where FC (or FCoE) is a requirement. 18

Arista Litigation Environment
Global networking leader Cisco launched the ongoing copyright and patent infringement battle in 2014 against Arista, a company founded by former Cisco personnel. Cisco claims that instead of developing its own technologies, Arista allegedly duplicated Cisco's proprietary technologies to battle against it in the same market. The latest news of this litigation is as follows, on January 17, 2017, an import ban from U.S. Customs and Border Patrol Agency was removed and is pending more legal scrutiny. This legal action ultimately favors Cisco and forces Arista Networks to move production back to the United States resulting in lower profit margins. 17

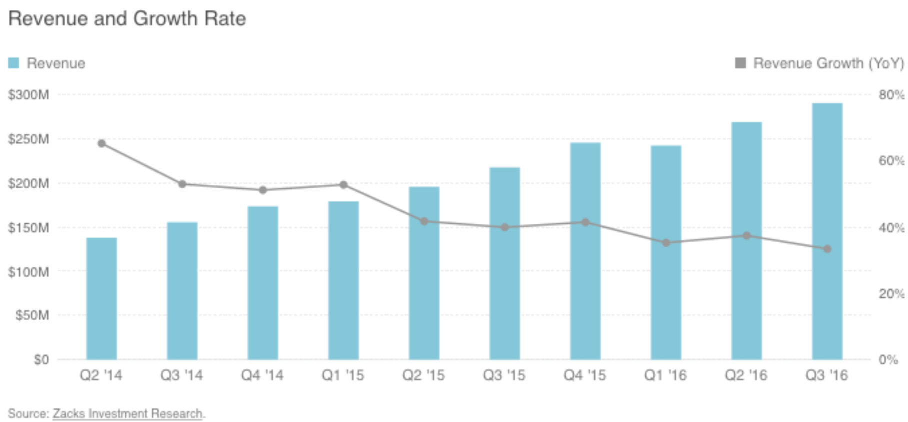
This year, there are more legal proceedings expected specifically from the International Trade Commission (ITC). Despite these legal proceedings, Arista business partners have shown little if any concern for this two-year long litigation battle and few of them think that the lawsuit will damage Arista's business prospects. Things are seen business as usual for the time being.18, 28, 29

Arista Benefits by Merging with HPE

Arista has limited reach outside of North America and most of Europe. A merger with HPE would greatly expand Arista's market potential and leverage HPE support services and channel ecosystem to better serve the broader market. Merging with Arista would eliminate the need to bundle HPE solutions with vendors like Cisco and Mellanox Technologies. The merger would enable a more comprehensive solution. It would take away some business from main competitor Cisco. Arista's open architecture and easy integration would be a strong and effective counter-weight to Cisco's Project Contiv. open source container networking initiative. Another reason is customers with Cisco Systems upgrading from non-ACI switches to ACI switches are doing this to automate and consolidate management instead of service orchestration and policy management. A merger with Arista Networks would play to its obvious market strengths by addressing customers greater need for service orchestration and policy management. Customers looking for an open networking strategy will turn to a combined HPE-Arista solution that offer open-source and disaggregated networking components versus Cisco's ACI solution characterized by proprietary features for hardware and software. 18

Competitors are becoming more price competitive. A merger with HPE would provide customers more value for the assumed cost and prevent commoditization and lower pricing. Nevertheless, the ongoing legal issue with Cisco is not perceived by current customers and partners as a serious ongoing concern. However, from a mergers and acquisitions point of view, a good acquisition strategy necessitates that a merger or acquisition objective should be placed on hold until the dust settles in this ongoing lawsuit between the two parties. 28

Arista Revenue & Growth Rate



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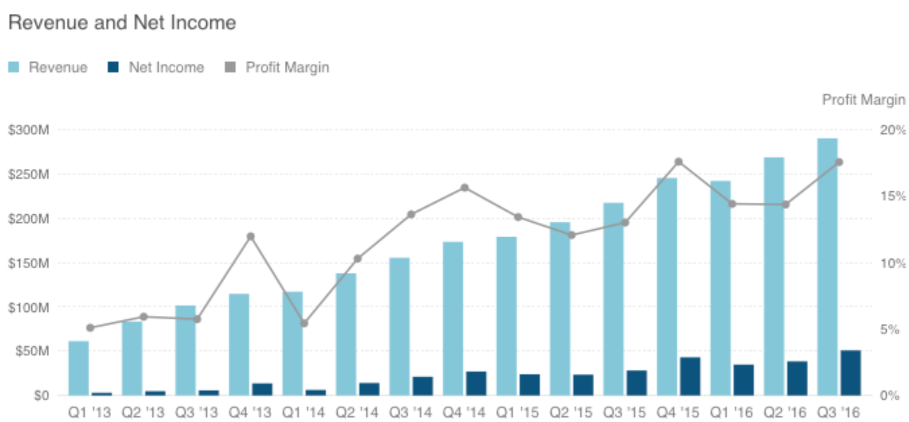
Arista Revenue & Net Income



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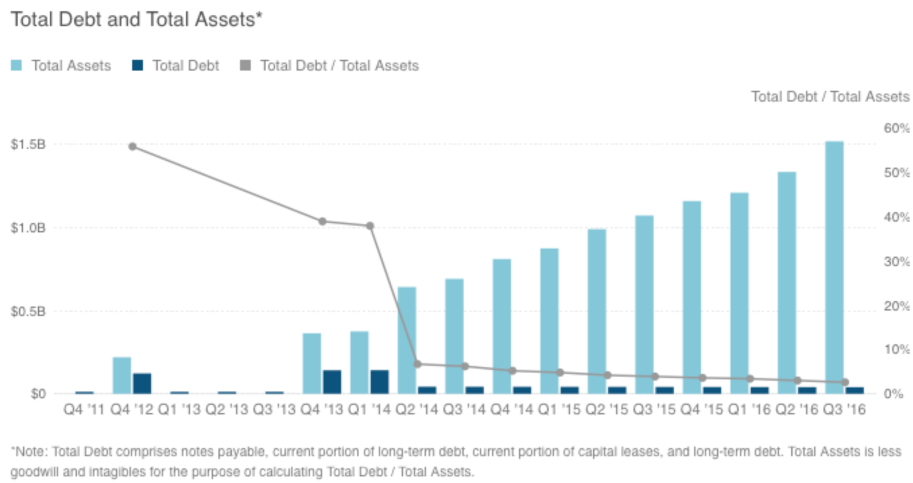
Arista Debt & Total Assets



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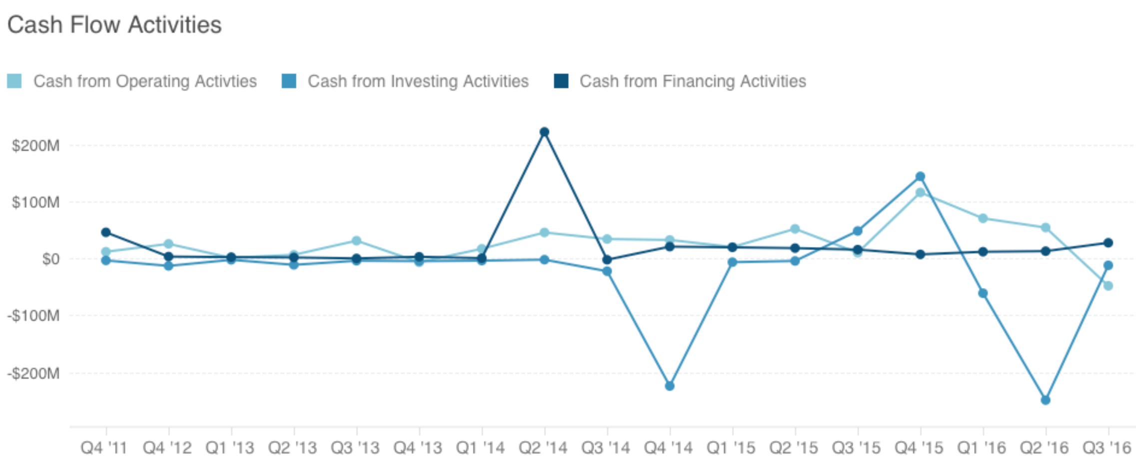
Arista Cash Flow



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Pure Storage

Pure Storage Technical Profile

As we get closer to the year 2021, 50% of data centers will use SSAs for big data workloads and high-performance computing for complex modeling, which started at less than 1% today. The research experts at Gartner estimate that by the year 2020, more than 50% of data centers will use only SSAs as their primary data storage solution, instead of hybrid arrays, up from less than 1% seen today. See figure on left. Magic Quadrant for Solid-State Arrays Segment 12

HPE's software license model is confusing in regard to paying for optional software licenses, which are based on the number of SSDs. Simplifying software licensing is a solution.

Pure Storage Litigation environment.

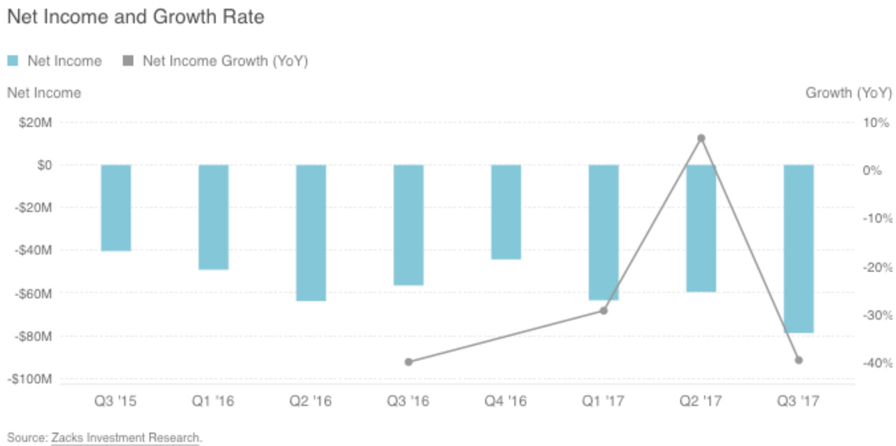
There are no pending lawsuits in 2017 that could derail a possible acquisition of Pure Storage. In October 2016, Pure Storage and EMC settled their long-running lawsuit, based on a press release posted on Pure Storage's website. The battling companies have settled all outstanding legal proceedings and the terms of the settlement remain private. Pure Storage will make an undisclosed payment to Dell. 31

Pure Storage Benefits by Merging with HPE

HPE lags deep predictive cloud-based analytic capabilities when compared to competitor solutions. There are three possible solutions. 1- build analytics capability into product. 2- Acquire Pure Storage and gain market leadership. 3- Acquire Kaminario to add analytics capabilities. Based on its track record for innovation, a merger with Pure Storage will bring innovative products to market faster and solidify a leadership position in the solid arrays market

Pure Storage Financials

Pure Storage Net Income and Growth Rate



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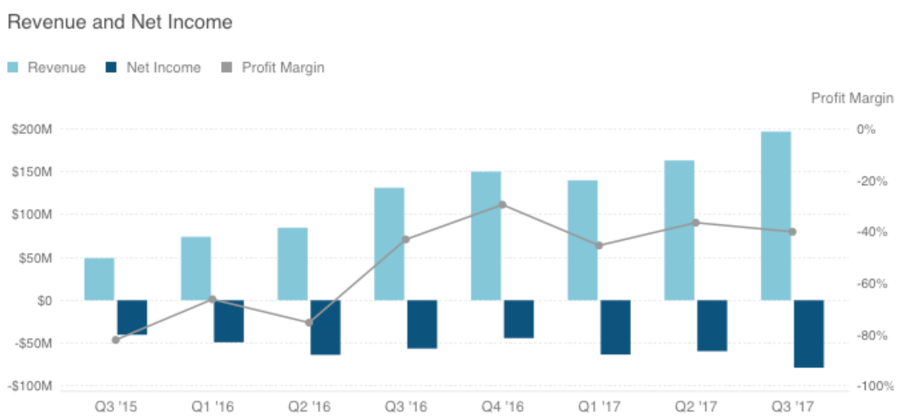
Pure Storage Revenue and Net Income



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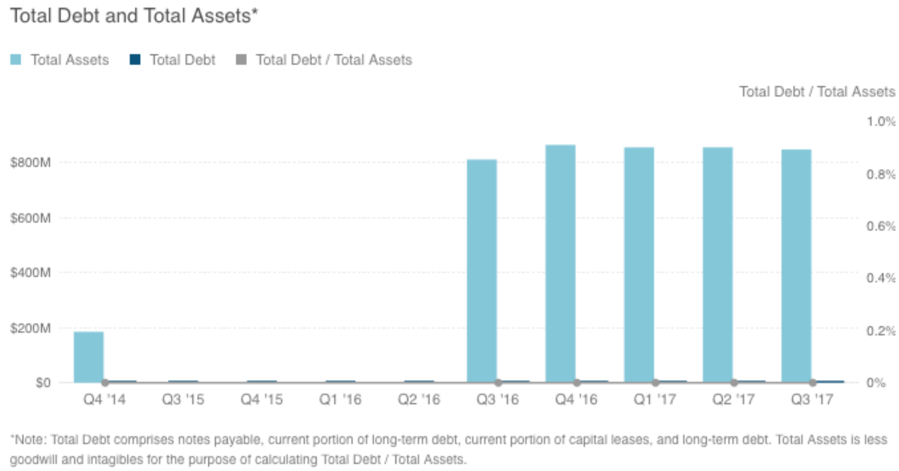
Pure Storage Total Debt and Total Assets



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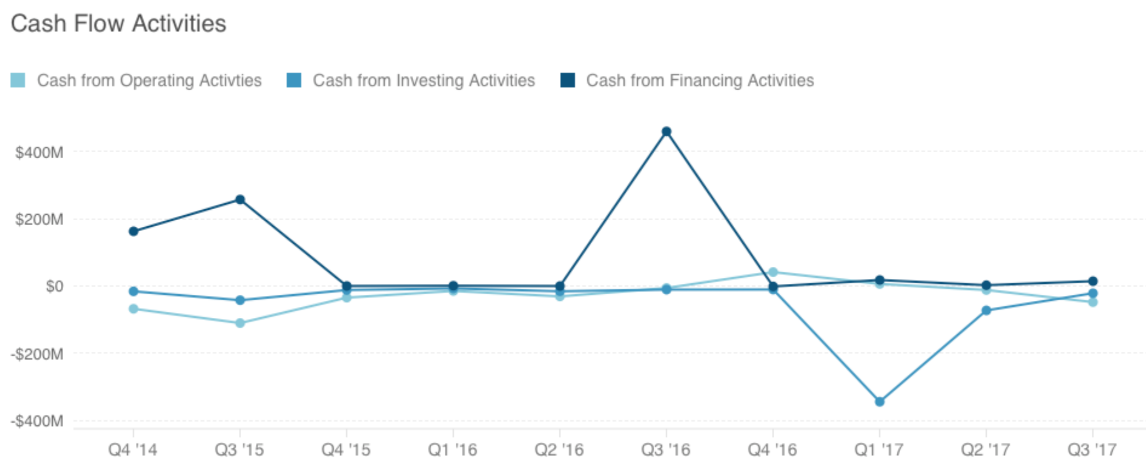
Pure Storage Cash Flow



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A10 Networks

A10 Networks Technical Profile

A10 Networks is a publicly traded company headquartered in San Jose, California, and is the fourth-largest ADC vendor by revenue with approximately 7% overall market share and 4,900 ADC customers.

A10 has a well-established position in enterprise-class infrastructure, such as e-commerce and network service providers. A10's most popular Harmony platform includes ADC capabilities that are delivered as hardware (Thunder appliances) and software (virtual machine [VM] and bare metal).32
A10 offers a very competitive solution based upon price/performance, small floor (200 Gbps of Layer 7 throughput in a one-rack unit [1RU] device) and broad programming capabilities. The acquisition of Appcito enables A10 to deliver both ADC instances with a small footprint and OTT deployment for ADC capabilities. A10 is lacking a few capabilities, such as SSL VPN for which buyers need when they integrate their remote access capabilities into an ADC platform. A joint go to market with Pulse Secure will satisfy some of these issues.32

A10 Networks Litigation Environment

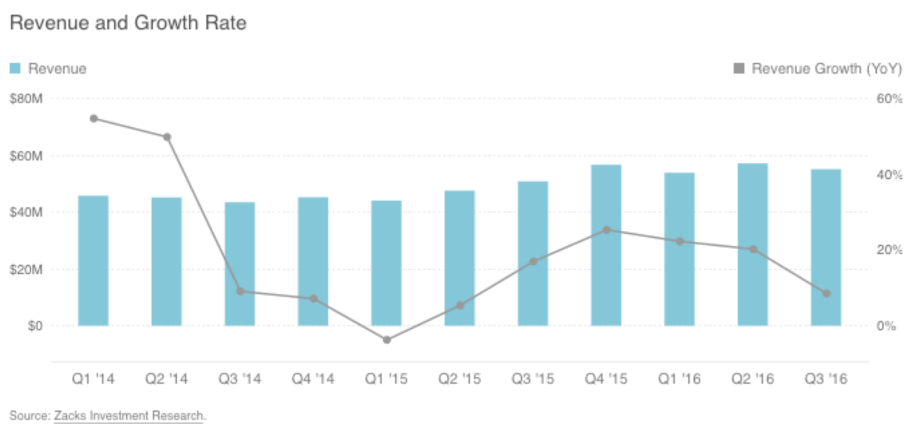
In March 2016, A10 Networks settled a lawsuit with the plaintiffs City of Warren Police and Fire Retirement System. They had filed a complaint for SEC violations against the Defendants. While the Settling Parties could not come to an agreement to settle the Litigation in March 2016, the Settling Parties continued their talks with Judge Phillips. The parties eventually agreed to settle the lawsuit for $9,837,500 in cash. Since this agreement, there are no other lawsuits pitted against A10 Networks that would halt a merger offer from HPE. 33,34

A10 Networks Benefits by Merging with HPE
A merger with HPE enterprise focus can expand A10 Networks beyond geographies of North America and Japan for enterprise solutions. HPE's vast resources can address its documentation issues and enable A10 Networks to become a strong competitor for Mode 2 initiatives. If HPE decides to go forward with a merger with Chef Software or Puppet Labs, then an alternative acquisition candidate should be Radware. This company has out-of-the-

box integration with Puppet Labs and Chef Software. Other contenders in this quadrant, such as F5 Networks and Citrix have strong partnerships with rival Cisco Systems. Decoupling these relationships might cause unnecessary friction to a successful merger with F5 or Citrix. Radware or A10 Networks offer a much lower entry point in terms of Market capitalization. Citrix has a lofty market cap. of $12.23 billion, F5 market is also high at $9.06 billion whereas Radware has $643.2 million market cap and A10 Networks comes in at an opportunistic bargain $643.2 million market capitalization.

A10 Networks Financials

A10 Networks Revenue & Growth Rate



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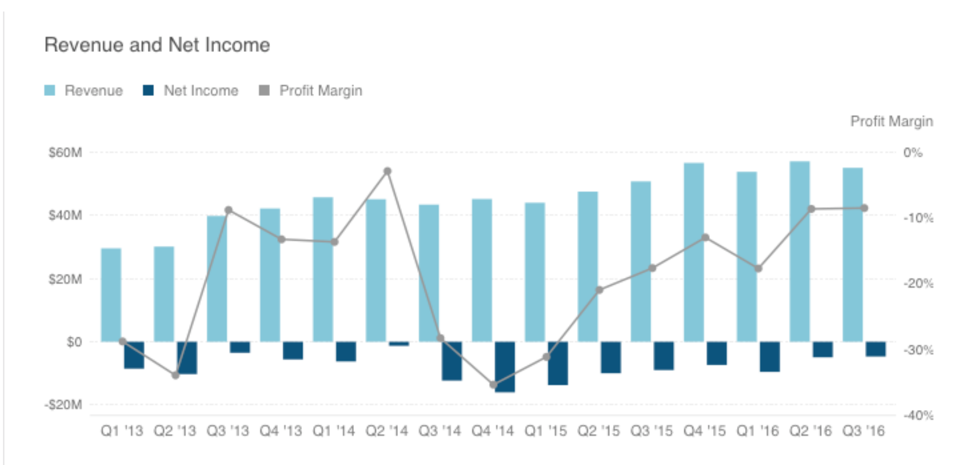
A10 Networks Revenue and Net Income



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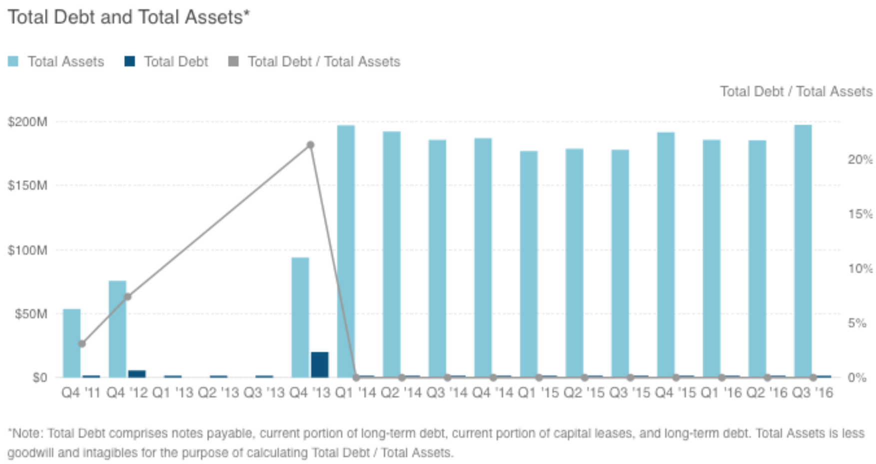
A10 Networks Debt & Total Assets



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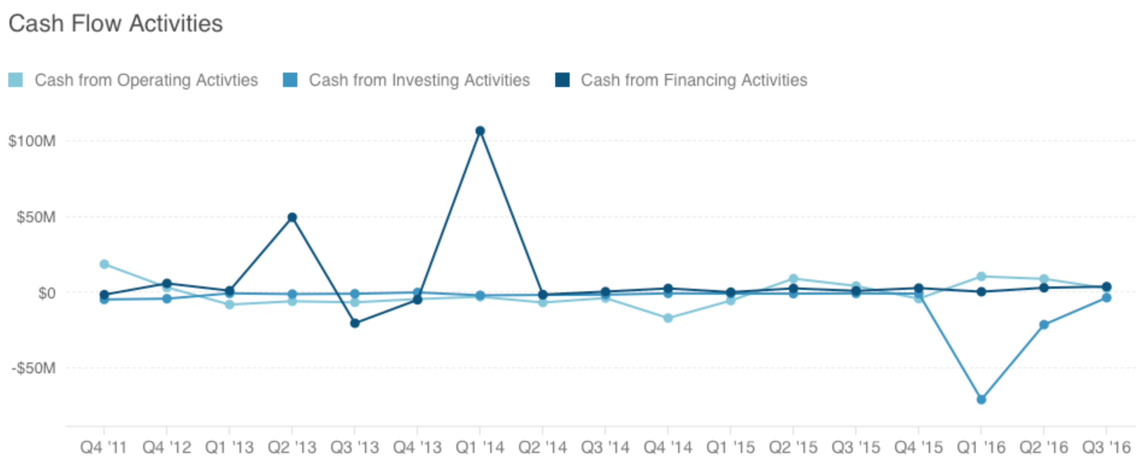
A10 Networks Cash Flow



27

Red Hat

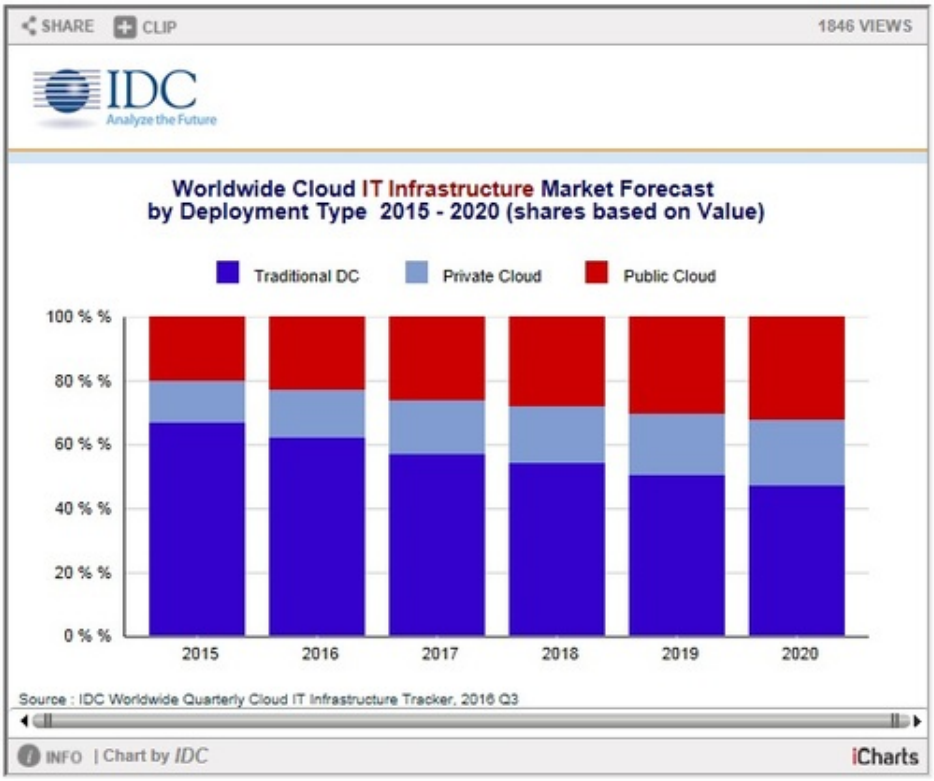
Another market opportunity called the Intelligent Edge, HPE will target the data center and cloud space it says represents a $100 billion opportunity. In this case, the target segments are: private cloud, all-flash arrays, high performance computing (HPC) and hyperconverged computing. HPE will easily leverage this new technology to run campus, branch and industrial IoT applications. An HPE spokesperson said that the segment is comprised of a $23 billion campus and branch market, and a $14 billion industrial IoT market growing at an estimated rate of 15% a year. Hewlett Packard Enterprise will also leverage its services capability targeting a $116 billion opportunity growing of at least 3% to 4% each year. 5,13

Cloud Infrastructure Market Share, Q3 2016

Source: International Data Corp.

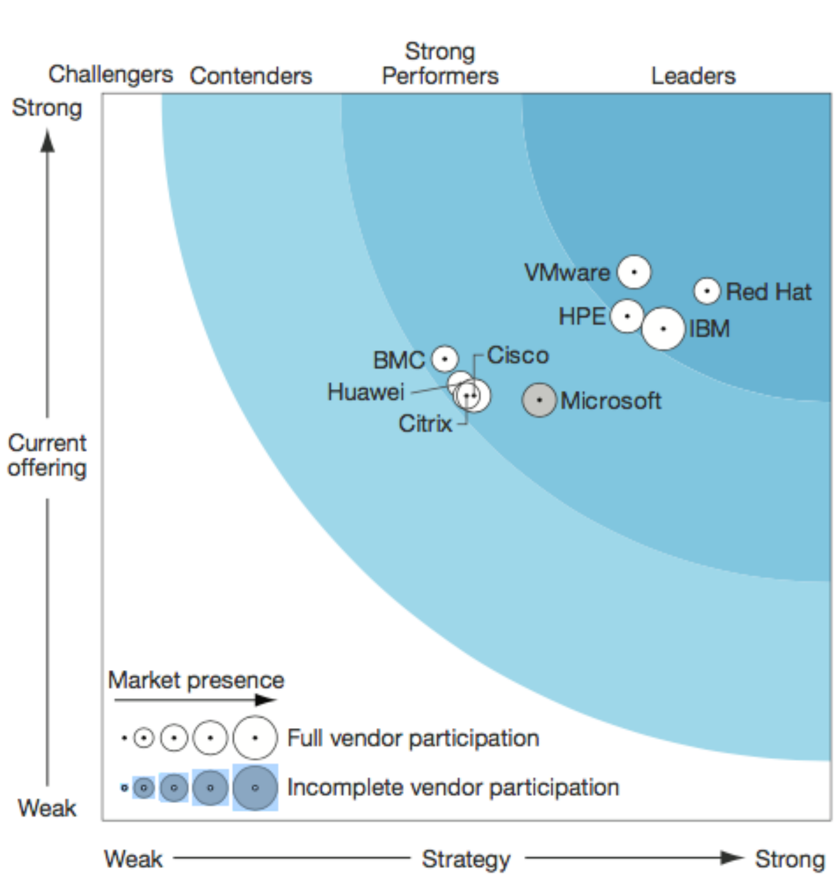
Metric	HPE	Cisco	Dell/EMC	Huawei	Others
Market Share	14.9%	12.2%	15.5%	3.3%	54.1%
Revenues	$1.25B	$1.03 B	$1.3B	$0.297B	$4.5B

Cloud vs. Non-Cloud Spending



In Q3'16, Cloud encompassed $39.2% of all IT infrastructure expenditures, a rise from 34.7% the previous fiscal year. While revenue from non-cloud infrastructure declined 10.8% year-over-year. In 2017, enterprise spending on cloud computing infrastructure is forecast to reach $44.2 billion, with the largest share will be attributed to public cloud services and the data center that supports the technology. Over the next several years, IDC forecasts cloud infrastructure spend will sustain a compound annual growth rate (CAGR) of 14.2% for public and private clouds. Nevertheless, at least 57% of spend is on traditional infrastructure despite a forecast decline of 3% in 2017. The biggest beneficiaries of the movement to the cloud are public cloud service providers like Google Cloud, Amazon AWS and Microsoft Azure. In 2017, of the total enterprise expenditures in cloud, $44 billion, 61.2% will go to public cloud vendors and this trend will continue its current tendency over the next several years. Private cloud spending will make up approximately 14.6% of all infrastructure spending. 47, 59

FIGURE 3 Forrester Wave™: Private Cloud Software Suites, Q1 '16



Red Hat Technical Profile

Over the next several years, IDC is forecasting a 14.2% CAGR for what it says are "off-premises cloud IT infrastructure," with the market hitting almost $48 billion by 2020. Approximately 80% of this outlay will flow toward the many data centers that are support public cloud services. IDC predicts that cloud spending will surpass traditional infrastructure outlays by the year 2020. 51

From this growth towards cloud, Ethernet switches are the segments with the fastest growth, with a YoY spending increase of 24%. Other growing segments are storage systems rising 23.7% over the previous year and server outlays growing by at least 13.6%. 51

Nevertheless, many competitors, such as, Cisco, Dell, Lenovo and Oracle will not stand still and will also aggressively compete in many of the markets that HPE is playing in. For example, Cisco's key focus areas are enterprise hardware to serve cloud infrastructure, data security, the Internet of Things (IoT), and communication solutions. These areas align to many of HPE's target segments.

Red Hat Litigation Environment

Looking at the latest 10K filings and other financial and legal data, there does not appear to be any outstanding lawsuits that would adversely affect Red Hat's business operations. Therefore, HPE could proceed to acquire Red Hat without concern for adverse impact stemming from nay pending litigation. 8

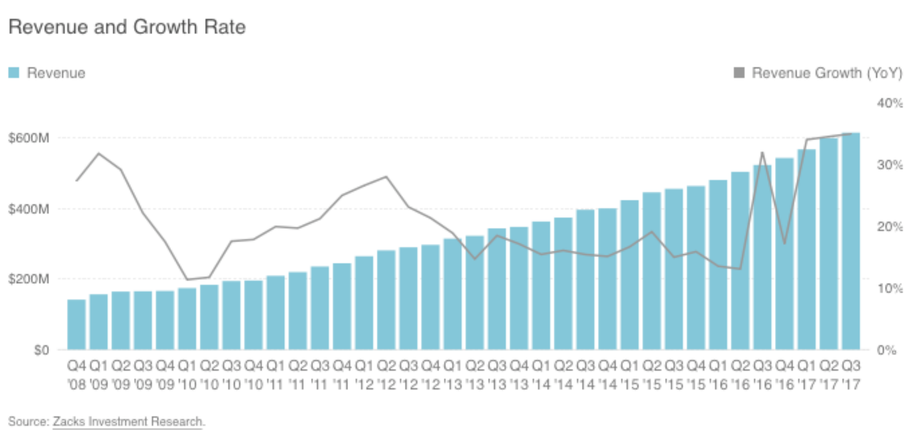
Red Hat Benefits by Merging with HPE

Hewlett Packard Enterprise(HPE) CloudSystem Enterprise Suite use its own management tools on top of an OpenStack-based platform. Despite its navigation ease, this suite is comprised of many disparate products that offer significant depth in management capabilities. Looking at the Gartner report, Hewlett Packard Enterprise shows the highest scores for automated provisioning, compliance and cost. However, its weaknesses are numerous with quotas and limits, poor storage services and platform support, provisioning that is slower than many competitors and large and costly implementations.

Going forward, HPE will focused on hybrid cloud enablement through its CSA solution. A merger between HPE and Red Hat would combine two large development centers feeding upstream to the OpenStack. Looking at the vast list of open source offerings, Red Hat has a more robust solution than HPE particularly for integrations, cloud governance and APIs. Red Hat would benefit from a stronger partner ecosystem and supporting products and services in addition to an increased global customer base. This merger would highlight Cisco's weakness in ITSM and developer tools, compliance tracking and configuration management tools. Nevertheless, HPE cannot be complacent in this space. Cisco recently bought AppDynamics for $3.7 billion. The company provides cloud based software that measures and analyzes the performance of business-critical applications. This will make it much more competitive against HPE's cloud management offerings. Irrespective of current valuations, the alternatives to Red Hat are vmware and IBM, but at too steep a price based on a market capitalization. Vmware market capitalization is approximately $36.7 billion and IBM is equally steep at $37.5 billion versus Red Hat's relatively cheap $1.3 billion market cap. 10

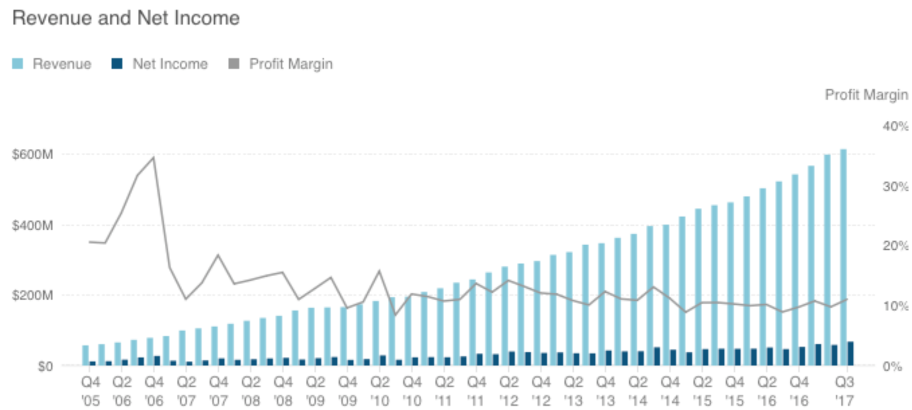
Red Hat Financials

Red Hat Revenue & Growth Rate



35

Red Hat Revenue & Net Income



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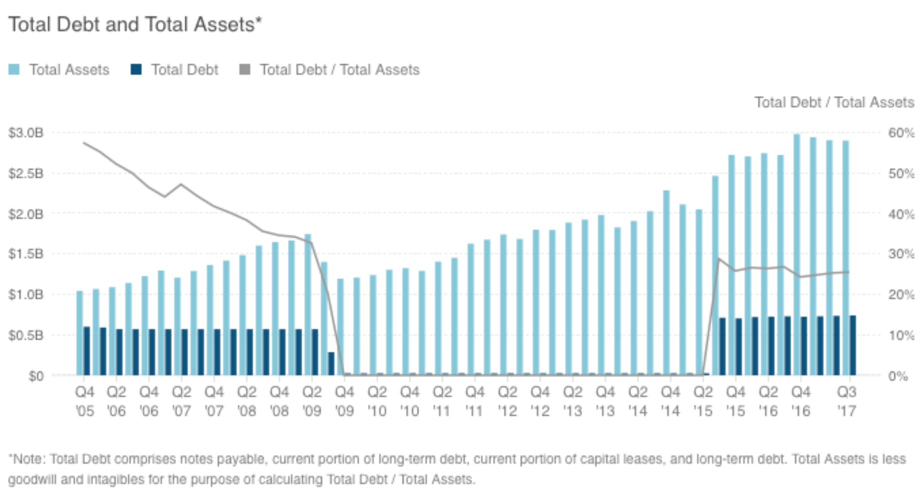
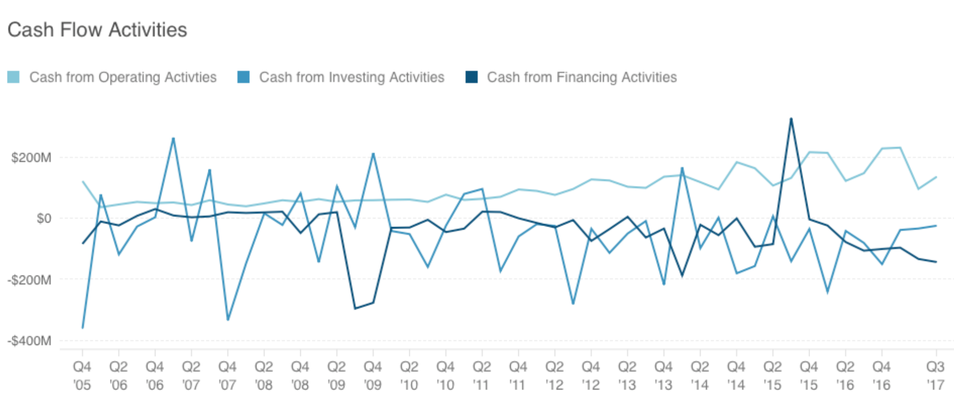
Red Hat Debt & Total Assets



*Note: Total Debt comprises notes payable, current portion of long-term debt, current portion of capital leases, and long-term debt. Total Assets is less goodwill and intagibles for the purpose of calculating Total Debt / Total Assets.

37

Red Hat Cash Flow



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Established Players M&A Recommendations

In summary, all four established players are market leaders in their respective segments. Each company would benefit from a merger with Hewlett Packard Enterprise. However, financial resources are not limitless, and HPE is always looking for the best investments to strengthen its portfolio of innovative solutions.

After looking at the four established players, Red Hat is the first choice as an acquisition target. It has the highest revenue for the last four quarters. Looking at the cash flow, there are serious fluctuations that can be addressed after a merger with HPE. The silver lining is the cash flow from operations is significant at $200 million, but it shows strong seasonality. The current trend for this curve points to a long term upwards trajectory, but a more detailed analysis is warranted to validate this hypothesis. Unlike Arista Networks, Red Hat is free and clear of any pending lawsuits. Red Hat has potential global market size in 2020 that is a third of Arista's potential market size, but at a much lower price in terms of market capitalization. In short, Arista's market cap of 6.5 billion vs. Red Hat's 1.3 billion. In summary, there is more value in this acquisition than going with Arista Networks. More importantly, Red Hat's market cap is well below it current valuation and is the most attractive choice among the four takeover targets.

Arista's capitalization is higher based on the strength of its financials, such as steadily increasing revenues, low debt and increasing profit margins. Arista Networks would provide a faster boost to HPE's bottom line than Red Hat. However, since Q4 2015, Arista has a declining cash flow from operations leading to negative values in 2017 and this signals a cautionary tale. Arista does have one significant advantage over Red Hat, Arista Networks has increasing profit margins and revenues whereas Red Hat is showing declining profit margins. The most serious hurdle going forward with an Arista acquisition, is the unresolved lawsuit with Cisco Systems. A legal claim that could seriously hinder future operations. In short, it is best to take a wait and see approach. Furthermore, the current valuation is well below its market capitalization and becomes the last choice among these acquisition targets.

In summary, one must weigh the current valuation versus market capitalization, legal risk, financial risk and potential size of the market in 2020. Arista provides solid financials and higher market potential, but at a high risk for litigation. The opposite is true for Red Hat, its legal issues are insignificant, but financials are riskier and the potential market size is much less. One final point to make is corporate culture, both HPE and Red Hat embrace the open stack environment and dedicate resources to its promotion and use. In this case, the corporate culture would be aligned towards flexible open standards and greater freedom for customers to mix and match technologies providing a halo effect, whereas the customer perceives the solution to be a custom fit to their needs. If you look at all the factors, potential market size, growth rate, revenues and valuation versus market cap, then A10 Networks becomes the second choice among the four public companies. Based on this criteria Pure Storage becomes the third choice and Arista Networks is the last choice.

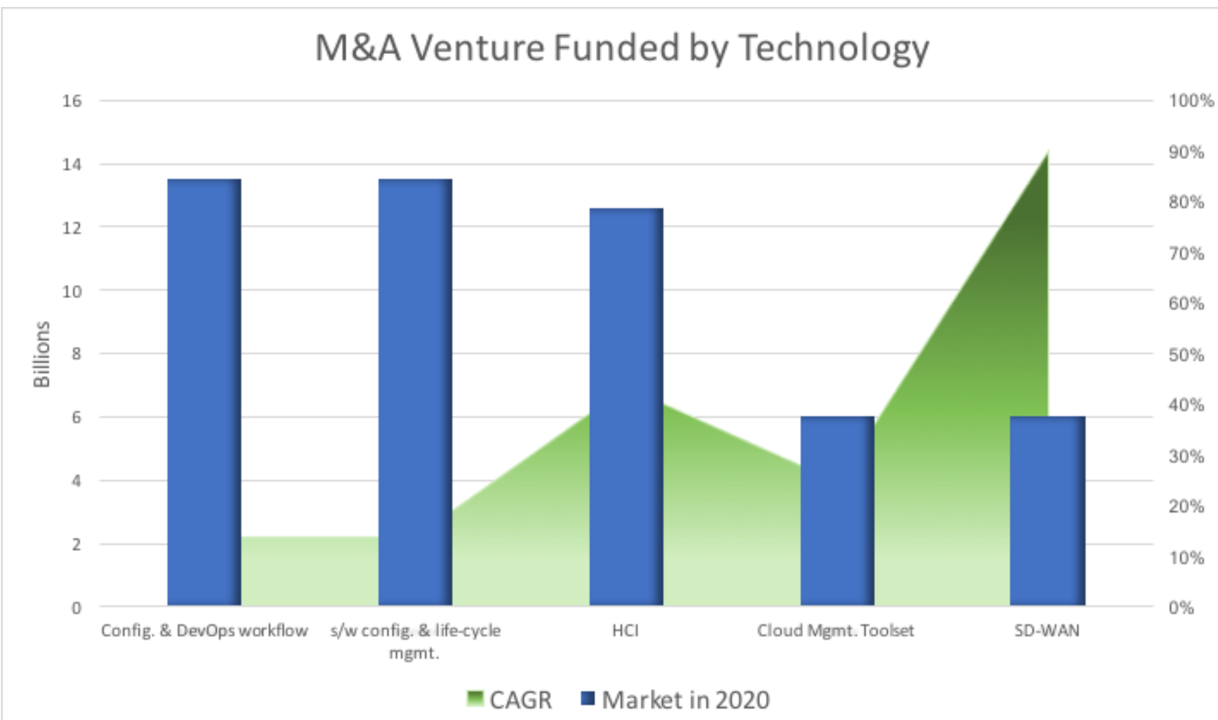
Venture Funded Opportunities

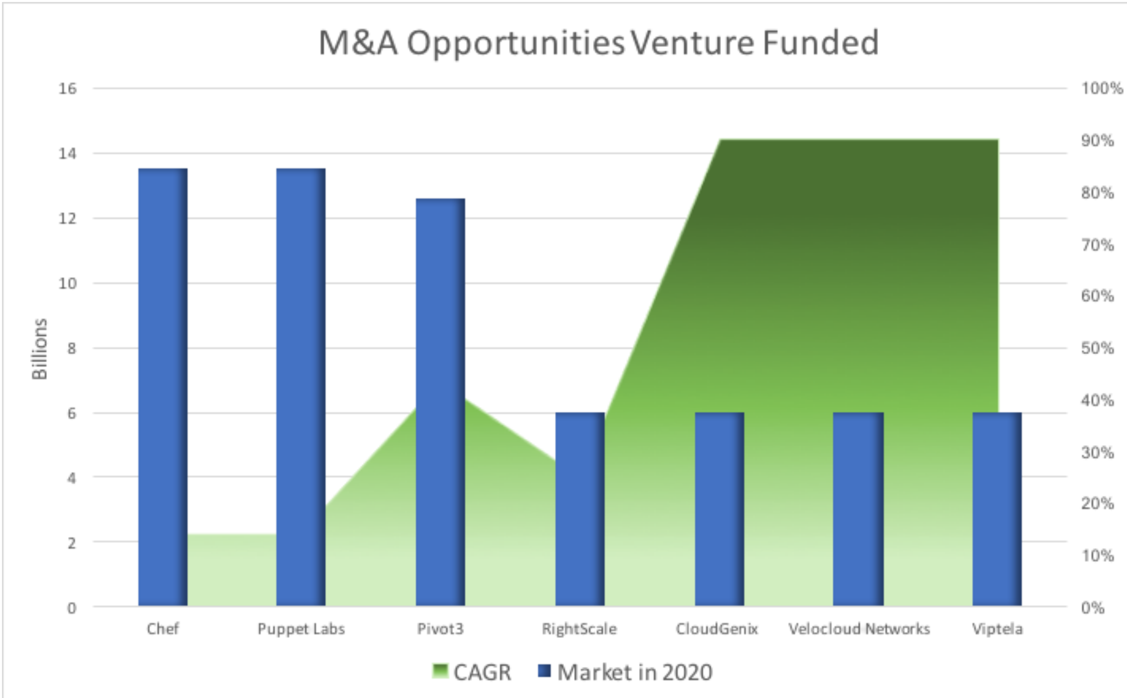
#	Takeover Target	Global Market Size by 2020	Annual Growth Rate (CAGR)	HPE Solution(s)	Technology	Competitor Threat	Market Position/ Key Advantage
1	Pivot3	$12.6B* in 2022	43.6%*	HC380, SimpliVity	Hyper-converged Infrastructure (HCI)	Nutanix, Scale Computing	Pivot3, SimpliVity and Nutanix share leadership in HCI. Acquiring Pivot3 or Nutanix to prevent Cisco from buying them is viable.
2	Chef	$13.5B* 2021	14.2%	ITOM S/W	Config. & DevOps workflow toolset	Bladelogic, Cisco, Dell/EMC, Microsoft	Enhance HPE portfolio for ops. mgmt., app. delivery, converged infrastructure mgmt., hybrid cloud mgmt.
3	Puppet Labs	13.5B* 2021	14.2%	ITOM S/W	s/w config. & life-cycle mgmt.	Bladelogic, Cisco, Dell/EMC, Microsoft, Saltstack	Enhance HPE portfolio for IT s/w mgmt. tools.
4	RightScale	$6.0B	25.0%	Helion Cloud Suite	Cloud Mgmt. Toolset	Cloudera, CliQr/Cisco, Scalr	Industry-leading cloud management toolset.
5	CloudGenix	$6.0B	90.0%	Branch & Network Edge w/ Aruba ContexNet	SD-WAN	Cisco, Citrix, Juniper, Nokia, Riverbed, Silver Peak, Talari	Increase competitiveness against Cisco offerings.
6	Velocloud Networks	$6.0B	90.0%	Branch & Network Edge w/ Aruba ContexNet	SD-WAN	Cisco, Citrix, Juniper, Nokia, Riverbed, Silver Peak, Talari	Strong with service providers AT&T, Sprint, NetOne, Vonage & Earthlink/Windstream. 11
7	Viptela	$6.0B	90.0%	Branch & Network Edge w/ Aruba ContexNet	SD-WAN	Cisco, Citrix, Juniper, Nokia, Riverbed, Silver Peak, Talari	SD-WAN technology virtualizes WAN infrastructure. Platform lets enterprises build carrier-agnostic, policy-controlled & low cost WANs. New deal w/ Verizon and Singtel for (SEN) SD-WAN & easy setup vs. Cisco IWan. 12

39,60

VC Funded Ventures				
Takeover Target	Segment Global Market Size by 2020	Segment Annual Growth Rate (CAGR)	Total VC Funding	Annual Sales (Millions)
Pivot3	$12.60	43.60%	215.00	44.06
Chef	$13.50	14.20%	142.20	28.50
Puppet Labs	13.5	14.20%	102.50	42.10
RightScale	$6.00	25.00%	53.60	22.20
CloudGenix	$6.00	90.00%	34.00	1.36
Velocloud Networks	$6.00	90.00%	48.00	2.62
Viptela	$6.00	90.00%	141.50	2.30

The websites Privco.com, Hoovers.com and Pitchbook.com have more detailed financial information on private companies. However, these research services require a subscription at substantial cost. Having a look at the financials of these VC funded companies might sway the order of my M&A recommendations.





Investor Profiles

Dev Ops Software

Puppet Labs

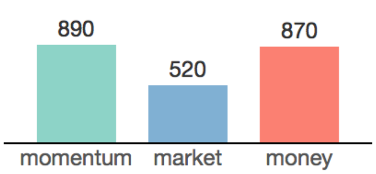
Portland
Oregon
United States

puppetlabs.com

overall score

810

score breakdown



Chef Software

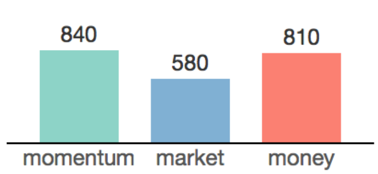
Seattle
Washington
United States

chef.io

overall score

780

score breakdown



77

Days Since Last Funding	397	530
Total Funding	$107.5M	$105M
Last Funding Round	$22M Line of Credit Jan 20th 2016 investors Silicon Valley Bank	$40M Series E Sep 9th 2015 investors Hewlett-Packard Ventures Draper Fisher Jurvetson DFJ Growth Fund Ignition Partners Citi Ventures Battery Ventures

77

Chef Software Investor Profile

77

Chef Software x

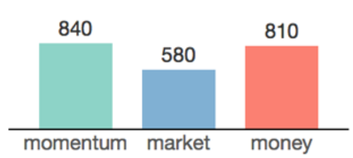
Seattle
Washington
United States

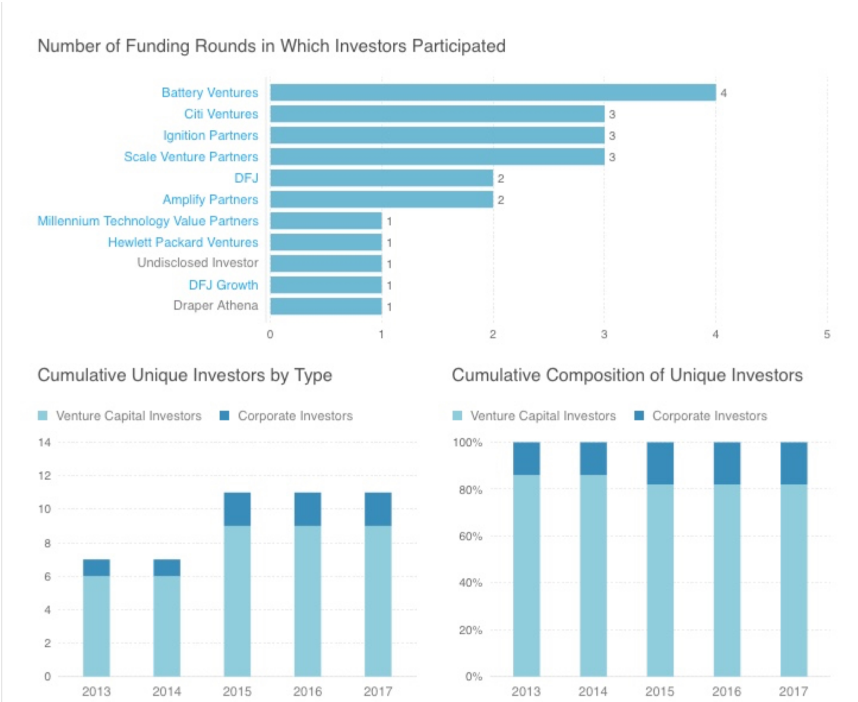
chef.io

overall score

780

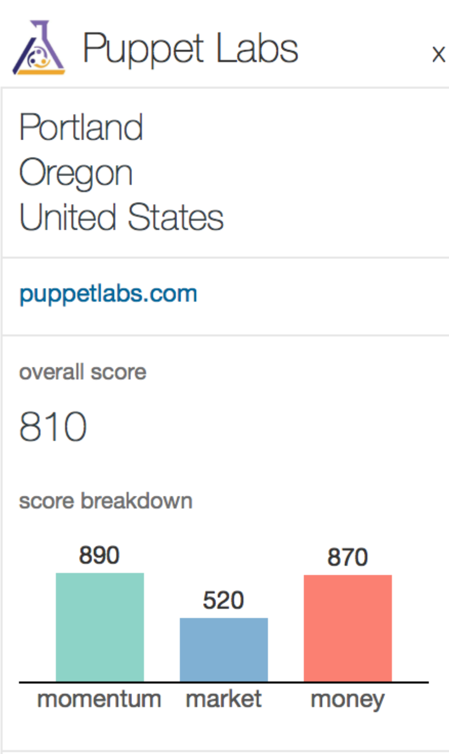
score breakdown





66

Puppet Labs Investor Profile



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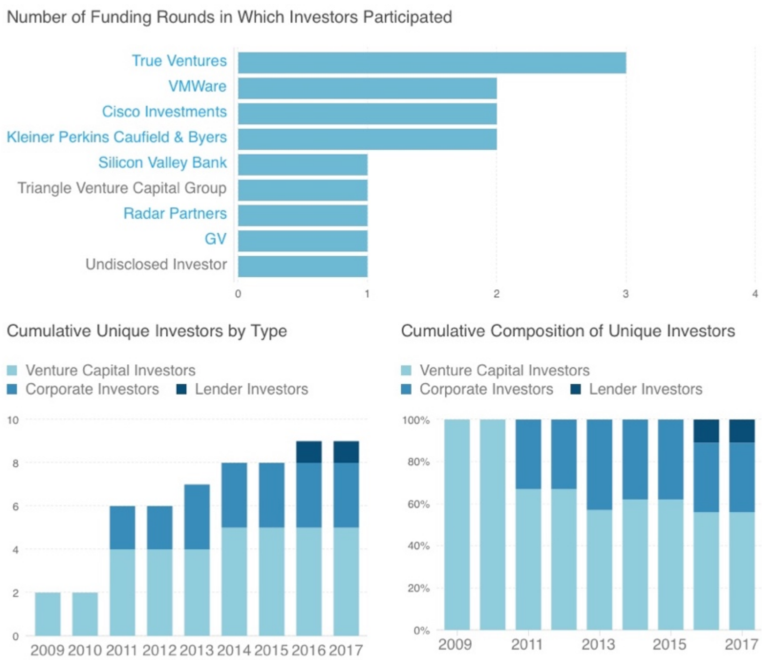
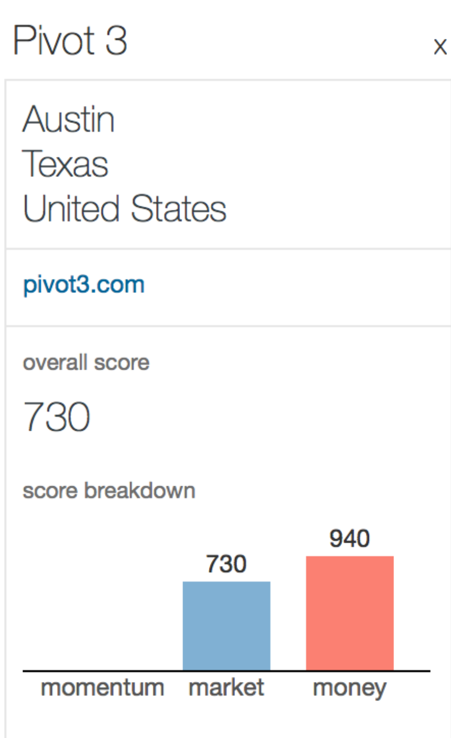


67

Pivot3 Investor Profile



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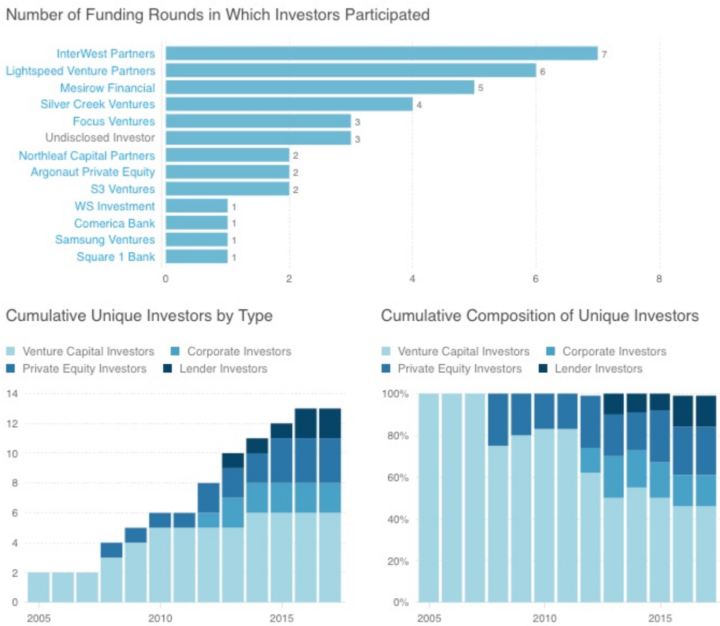
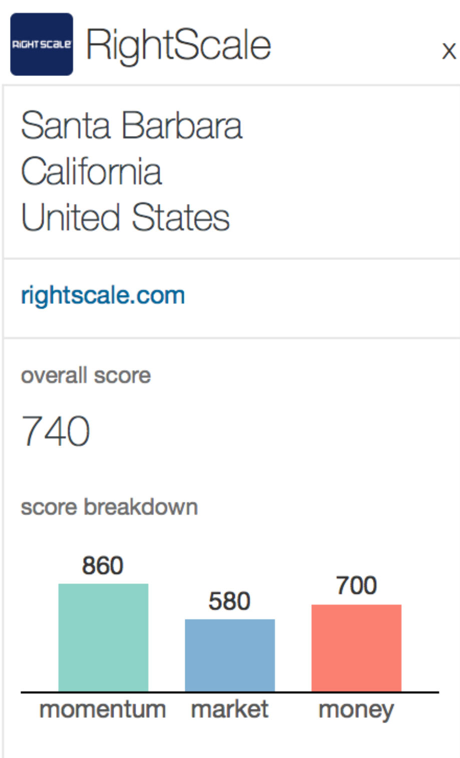


[68]

Rightscale Investor Profile



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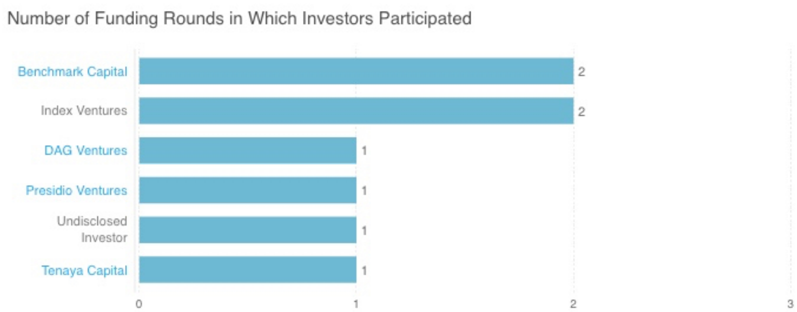

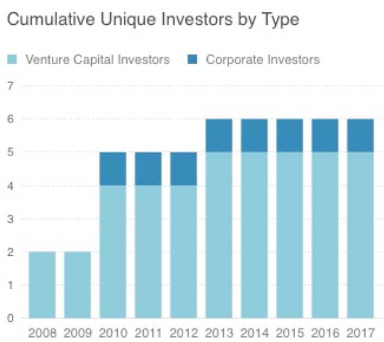

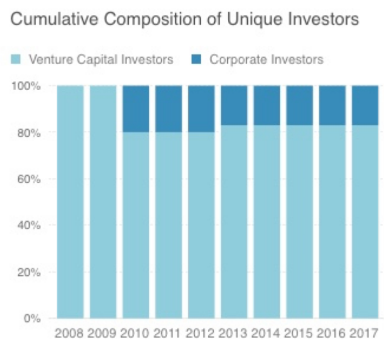

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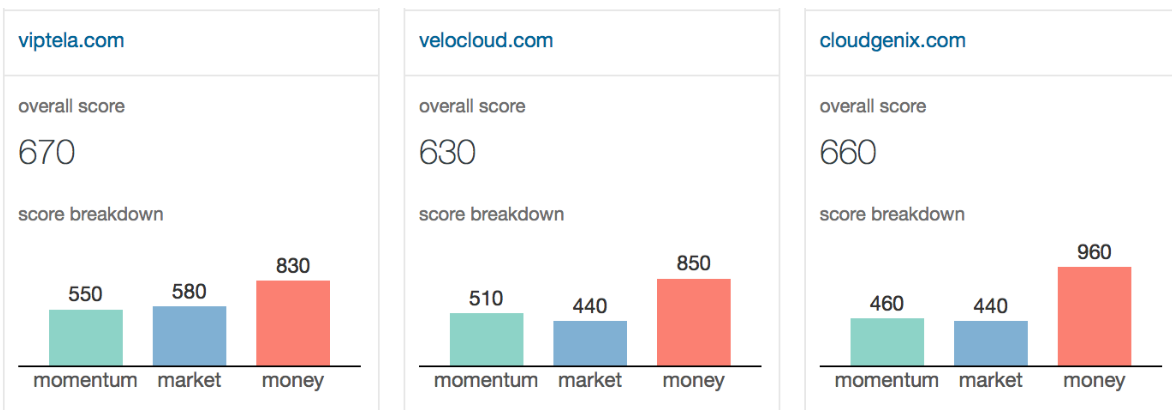
SD-WAN Companies

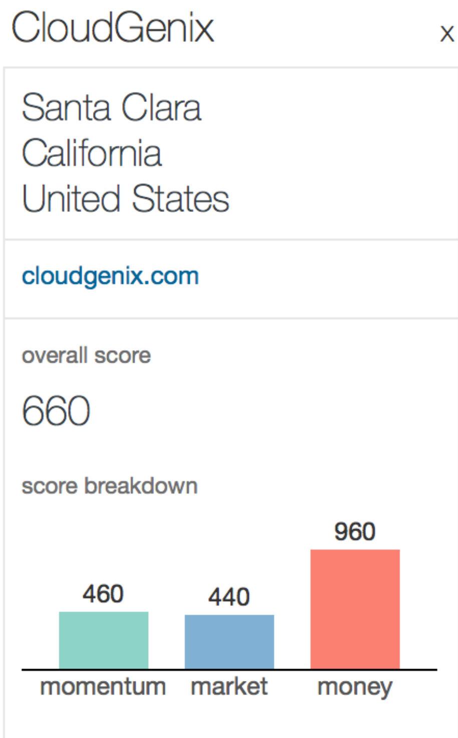


77

Days Since Last Funding	657	403	271
Total Funding	$34M	$48M	$108.5M
Last Funding Round	$25M Series B May 5th 2015	$27M Series C Jan 14th 2016	$75M Series C May 25th 2016
	investors Mayfield Fund Bain Capital Ventures CRV	investors Cisco Investments New Enterprise Associates Venrock March Capital Partners	investors Northgate Capital Redline Capital Management Sequoia Capital

77

CloudGenix Investor Profile



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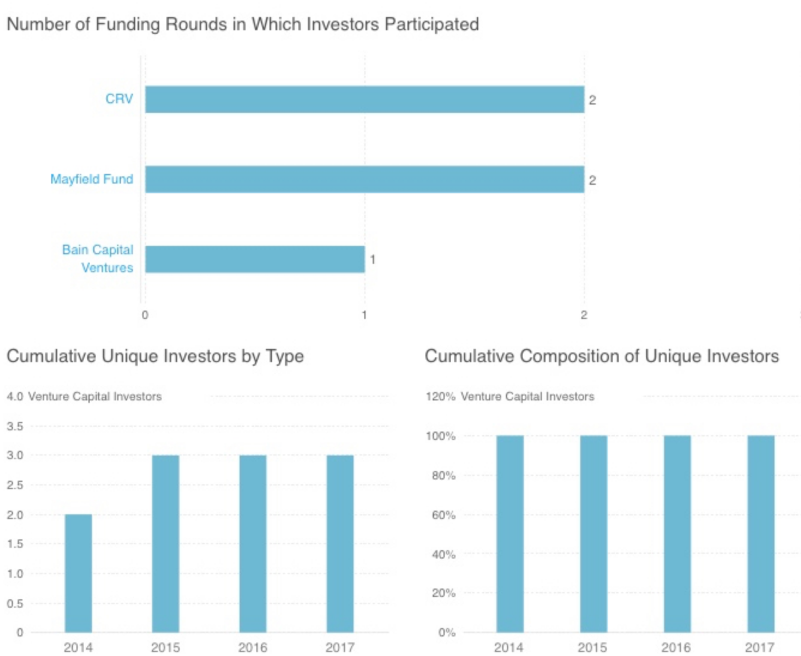
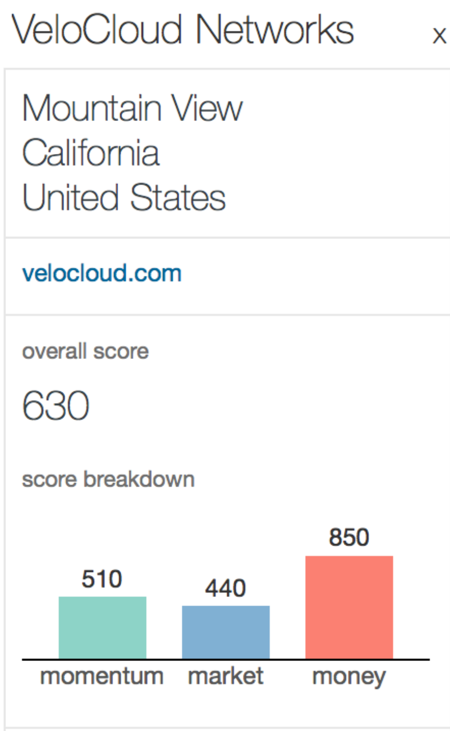
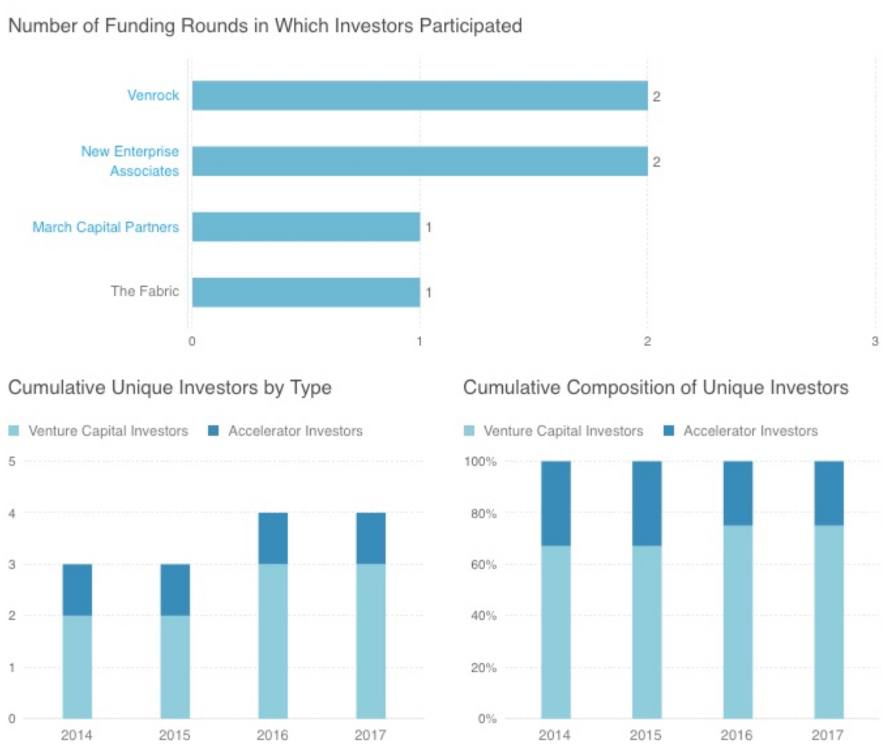


70

VeloCloud Investor Profile


VeloCloud Networks
x
Mountain View
California
United States
velocloud.com
overall score
630
score breakdown
510
440
850
momentum
market
money

77


Number of Funding Rounds in Which Investors Participated
Venrock
2
New Enterprise Associates
2
March Capital Partners
1
The Fabric
1
0
1
2
3
Cumulative Unique Investors by Type
Venture Capital Investors
Accelerator Investors
5
4
3
2
1
0
2014
2015
2016
2017
Cumulative Composition of Unique Investors
Venture Capital Investors
Accelerator Investors
100%
80%
60%
40%
20%
0%
2014
2015
2016
2017

71

VeloCloud Investors (6)

Investor Name	Investor Type	Holding
21Vianet Group	Corporation	Minority
Cisco Investments	Corporate Venture Capital	Minority
March Capital Partners	Venture Capital	Minority
New Enterprise Associates	Venture Capital	Minority
The Fabric	Accelerator/Incubator	Minority

Viptela Investor Profile

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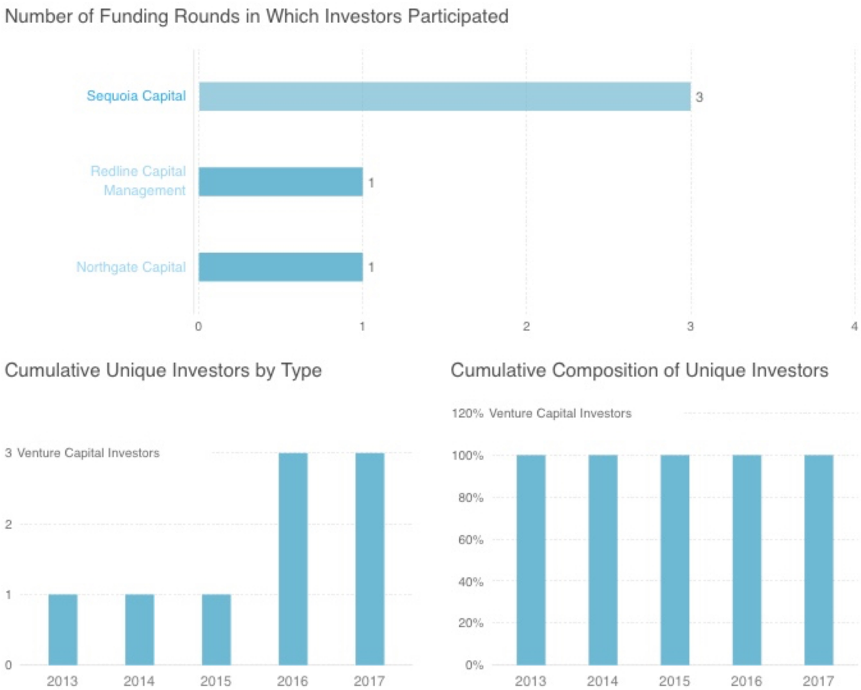

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Largest valuation jumps by step-up multiple

Company	Close Date	Round Size/Stage	New Pre Val	Previous Post Val	Valuation Step-Up
viptela	25-May	$75M/Series C	$825M	$104.8M	7.87x
AVANAN	17-May	$14.9M/Series A	$25M	$4M	6.25x
inmotionnow	26-May	$3M/Late Stage	$16.6M	$4M	4.15x
CARIBOU BIOSCIENCES	16-May	$30M/Series B	$113.8M	$29M	3.92x
tally	19-May	$15M/Series A	$35M	$9M	3.89x
hyperloop one	11-May	$93.3M/Series B	$145.7M	$42.1M	3.46x
kite hill	19-May	$18M/Early Stage	$49.1M	$14.3M	3.44x
Silicium Energy	19-May	$6.2M/Early Stage	$14.2M	$4.8M	2.99x
ScaleFlux	14-May	$10M/Early Stage	$38.6M	$14.3M	2.7x
Reflektive	4-May	$14.5M/Series A	$47M	$17.9M	2.63x

PitchBook

73

Largest post-money valuation gains

Company	Close Date	Round Size/Stage	New Post Val	Previous Post Val	Valuation Gain
	25-May	$1.8B/Series F	$17.8B	$15B	$2.8B
Pivotal	9-May	$653M/Series C	$2.75B	$1.05B	$1.7B
viptela	25-May	$75M/Series C	$900M	$104.8M	$795.2M
Clover	20-May	$165M/Late Stage	$820.2M	$264.1M	$556.1M
HeartFlow	20-May	$99.9M/Late Stage	$797.4M	$431.4M	$366M
Bolt Threads	12-May	$50M/Series C	$304.2M	$100.2M	$204M
hyperloop one	11-May	$93.3M/Series B	$238.9M	$42.1M	$196.8M
eero	25-May	$50M/Late Stage	$277.8M	$122.1M	$155.7M
THOUGHTSPOT	19-May	$50M/Series C	$294.9M	$140.5M	154.4M
stem	25-May	$68M/Late Stage	$233.7M	$82.6M	$151.1M

PitchBook

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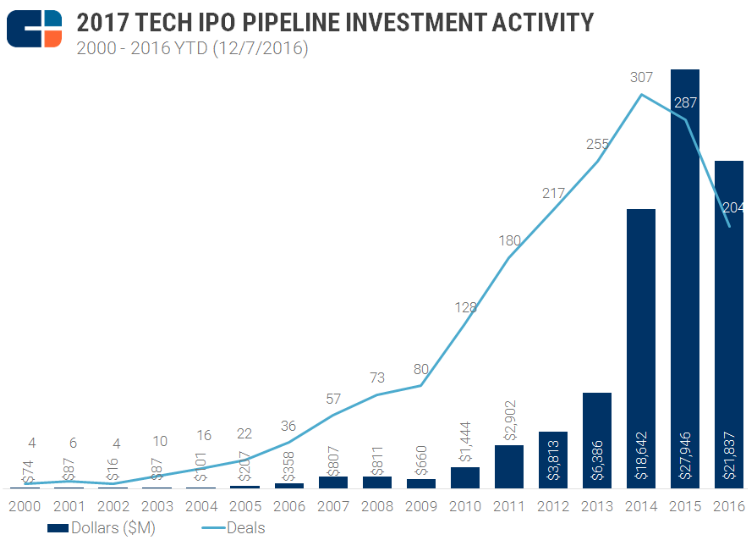
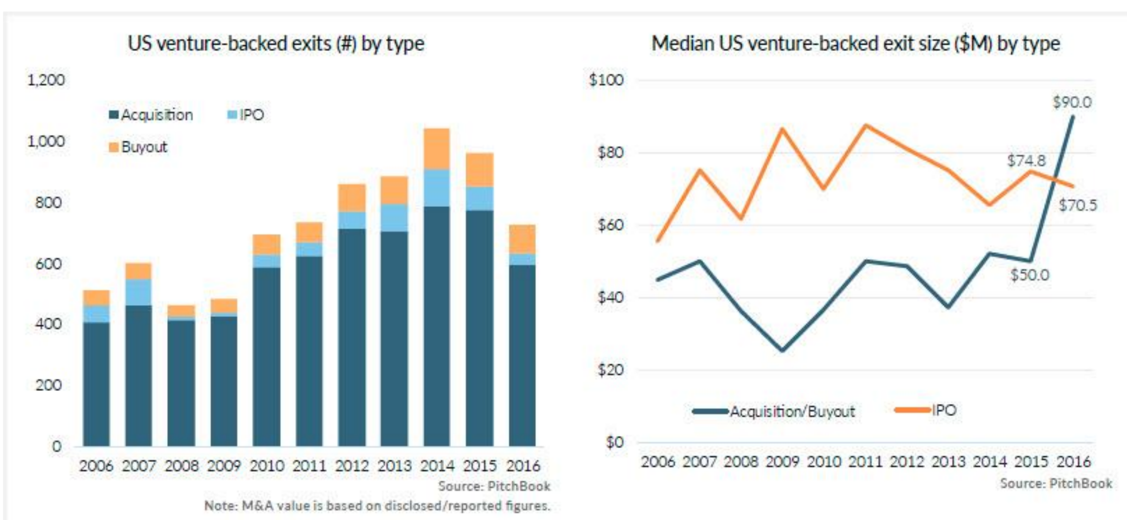
As of March 2016, Viptela has an unresolved pending lawsuit filed in March 2016. FatPipe Inc. The plaintiff claims that Viptela infringed on two of its SD-WAN patents. 62,63

M&A Recommendation for VC Funded Opportunities

Selection is based on the compound annual growth rate (CAGR), and market size in 2020 as well as existing sales, and mosaic score from CB Insights, investor profiles and total VC funding. Hewlett Packard Enterprise has invested in one of them namely Chef Software. However, there are better investment alternatives. After reviewing all criteria for these seven venture funded opportunities, Puppet Labs takes first place. Puppet Labs is the best choice based on its sales volume relative to its peers in the group and the estimated size of the segment in 2020. In second place, Pivot3 with its place in the Visionaries quadrant on Gartner's HCI Magic Quadrant and the projected size of the segment by 2020. Since there are several SD-WAN opportunities, Viptela would be the last choice among SD-WAN players, because of its unresolved lawsuit with FatPipe Inc. It did have the highest Mosaic score among the three SD-WAN providers. No pending lawsuits were found for the other VC funded opportunities, such as Pivot3, Chef, Puppet Labs, Rightscale, CloudGenix, and Velocloud Networks.

Partnering with an investment firm that can pry open the financials of these small companies would assuredly help solidify the initial recommendations presented thus far. Hopefully, these firms can also provide information on the managing teams of these smaller companies. In this case, few players have a greater impact on the long-term health of these companies. Any sudden departure from a senior executive can seriously put a dent into their risk assessments. In addition, who are the board members coming from existing funders? HPE has an inside track at Chef Software, but lacks the insider information on the other VC funded entities. Looking at these smaller companies, HPE will need to investigate which of these players are closest to SOX compliance for a future IPO. Proper documentation can provide a better foundation for financial due diligence and less risky deal-making. Finally, valuation is the most important factor in picking these diamonds in the rough. The Viptela valuation provides a sober indicator of how quickly valuation can rise and the opportunities becomes out of reach. An organization like Pitchbook and other VC research agencies can help HPE investment team find the true value of these VC funded companies.





72, 74

As shown in the charts above, acquisition/buyout activity has overtaken IPOs. The IPO market is not as frothy as in 2015. Consequently, these companies might prefer to be acquired by a larger benefactor than try to reach the IPO end-game. See CB Insights chart above.

Sources

1 http://marketrealist.com/2016/11/key-focus-areas-hewlett-packard-enterprise/
2 EdgarOnline, 8K filing, Published January 17, 2017, https://www.sec.gov/Archives/edgar/data/1645590/000162828017000254/0001628280-17-000254-index.htm
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