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HPE Spins Off Software Assets to Micro Focus

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I started implementing NonStop systems when Tandem was first announced in the late 1970s. The first Tandem system implemented by my company, Sombers Associates, Inc., was a racetrack totalizator system that accepted wagers on horse races and posted the odds and payoffs on display boards around the track.



As Tandem Computers was absorbed by Compaq, which was then acquired by Hewlett-Packard (now Hewlett Package Enterprise), so have Tandem systems morphed into NonStop systems. The basic hardware architecture remains unchanged, though the processors have moved from proprietary to Itanium to x86-based and the duplex ServerNet backbone fabric has been replaced with InfiniBand. However, the software supporting NonStop systems has grown and grown.

HPE now has announced its plans to spin off its non-core software assets and to merge them (a spin-merge) with software-company Micro Focus. This move represents a strategic slimming of HPE by CEO Meg Whitman to strengthen the company's focus on its primary mission – to deliver the promise of hybrid IT, in which a company's data centers are efficiently integrated with its private clouds.

The spin-merge deal is valued at \$8.8 billion USD to HPE shareholders. The acquisition of HPE's non-core software by Micro Focus will position Micro Focus to be one of the world's largest software companies.

Earlier in 2016, HPE spun off its Enterprise Services Division and merged it with Computer Sciences Corporation (CSC) in a deal valued at \$8.5 billion USD. HPE's technology services business also was not core to the company's current strategy.

However, the spin-merge transaction does not affect NonStop Systems. NonStop is not part of the Software Division that is the subject of the spin-merge. NonStop remains with HPE as part of Mission Critical Solutions headed by Randy Meyer.

HPE's Focus

HPE's strategy is to become the industry's leading supplier of software-defined hybrid IT solutions. While it spins off its non-core software assets, it is keeping its capabilities for software-defined infrastructure solutions and cloud environments.

Key to this strategy are core software assets such as OneView and the Helion Cloud platform. OneView is an infrastructure automation engine that streamlines the provisioning and lifecycle management across compute, storage, and network resources. It enables IT staff to control these resources programmatically through a unified API.

The Helion Cloud is based on the open-source OpenStack architecture. It provides the products and services necessary to create a flexible, open, and secure hybrid cloud. With Helion Cloud, private clouds, public clouds, and traditional IT can be integrated to most effectively meet an enterprise's needs.

These and other products and services enable a standalone HPE to realize its vision of being the industry's leading provider of the software-defined infrastructure that will run today's data centers and will bridge them to multi-cloud environments. The products and services provide the intelligent edge that will power campus, branch, and IoT applications.

HPE's Non-Core Software Assets

The non-core software assets that HPE plans to spin off to Micro Focus include the following systems:

- Application Delivery Management - delivers applications across technologies with quality, speed, and confidence to help accelerate the planning, testing, delivery, and support of optimized applications.
- Big Data Analytics - analyzes all data, structured and unstructured, throughout data and application lifecycles to unify disparate legacy data and the onslaught of new data.
- Enterprise Security - protects users, applications, data and the interactions between them, regardless of location or device, with HPE products and products from ArcSight, Fortify, Data Security (formerly Voltage) and Atalla.
- Information Management and Governance - serves the full spectrum of information management and governance needs for compliance, legal, risk visibility, and control over enterprise information via HPE Verity's "Single Source of Truth."
- IT Operations Management - enables customers to transform their traditional IT environments into a digital enterprise to leverage the full power of the hybrid cloud.

Micro Focus

Micro Focus International is a UK-based company that will become one of the largest software houses globally after its acquisition of the HPE non-core software assets. Micro Focus already has grown significantly via a series of acquisitions, including Attachmate and Serena Software.

Attachmate focuses on secure terminal emulation, legacy integration, and managed file transfer software. Serena Software provides process-based solutions for managing and automating application development, DevOps and IT operations.

Prior to the acquisition of the HPE non-core software assets, the Micro Focus software portfolio was fairly extensive and included:

- Identity-based access governance
- Security
- COBOL development
- Mainframe solutions
- Application development and testing
- IT operations management
- Host connectivity
- Collaboration/networking

The Spin-Merge to Micro Focus

The HPE/Micro Focus spin-merge is expected to close in the third quarter of 2017. The new Micro Focus will be led by Kevin Loosemore, the current company's Executive Chairman.

HPE and Micro Focus also have announced plans for a partnership that will name SUSE as HPE's preferred Linux partner. This will provide additional collaboration leveraging SUSE's OpenStack expertise with HPE's Helion Cloud OpenStack private cloud architecture.

SUSE's software portfolio includes:

- Enterprise Linux
- SUSE OpenStack private cloud
- Software-defined storage
- Other IT infrastructure management and optimization solutions

The Value of the Deal

As a result of the spin-merge transaction, HPE shareholders will obtain a 50.1% ownership in Micro Focus. Micro Focus also will make a cash payment to HPE of \$2.5 billion USD. With the value of the stock ownership valued at \$6.3 billion USD, the resulting value of the spin-merge transaction to HPE is expected to be \$8.8 billion.

After Micro Focus has acquired the HPE software assets, its annual revenue is expected to be about \$4.5 billion USD. This revenue is supported by Micro Focus' salesforce, which numbers about 4,000 sales people worldwide.

Where Does This Leave HPE?

The spin-merge of its non-core software assets is a major step toward enabling HPE to slim down in order to realize its vision of being the industry's leading provider of hybrid IT, merging a company's IT assets with its private clouds. HPE's newly created software-defined and cloud business will build on software assets like HPE OneView and its Helion Cloud platform.

In addition, HPE's Technology Services will be deployed to help customers transform their IT environments to hybrid architectures. HPE's Technology Services include about 22,000 service professionals worldwide and will represent about 25% of the company's revenue after the spinoff.

Where Does This Leave NonStop?

As previously stated, the spin-merge of software assets to Micro Focus does not affect the NonStop business directly. NonStop is not part of the Software Division. The Mission Critical Solutions organization, which includes systems such as NonStop alongside Superdome, remains with HPE.

However, in some areas the Mission Critical Solutions organization will forge more formal relationships with the teams that become part of Micro Focus. The NonStop business will move forward with HPE to continue to provide mission critical solutions that support customers' needs for hybrid and cloud environments in accordance with HPE's announced strategy.

Summary

When HP split into two companies, Hewlett Packard Enterprise and Hewlett Packard, Inc, it was to separate the Enterprise business from the printer and PC business (which remained as HP, Inc.). At that time, HPE became a major software player across the needs of enterprises. It is CEO Meg Whitman's

intent to focus HPE on providing world-class infrastructure and services to companies implementing hybrid IT systems and merging their traditional IT assets with private clouds (particularly HPE Helion).

To achieve this goal, HPE is honing itself to focus on the assets that contribute directly to this vision and divest itself from those that are less crucial. This has included the spin-off of its Enterprise Services Division to CSC and its non-core software assets to Micro Focus. Both of these transactions will net significant value for HPE shareholders.

Upon the completion of these transactions, HPE will be a slimmed-down company focusing efficiently on providing infrastructure for hybrid IT architectures to companies. In addition, HPE is using the cash that these divestments generate to acquire other technologies that add to this capability. HPE has recently announced that it is acquiring SGI, a global leader in high-performance solutions for compute, data analytics, and data management.

Acknowledgements

Information for this article was obtained from the following resources:

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Micro Focus Announces Intent to Merge with Hewlett Packard Enterprise's Software Business Segment, *Micro Focus Announcement*; September 7, 2016.

HPE to Merge Software with Micro Focus in \$8.8 Billion Deal, *HPE*; September 7, 2016.

CEO Meg Whitman on HPE's Plans to Spin-Off & Merge Non-Core Software Assets With Micro Focus, *HPE*; September 7, 2016.

INFOGRAPHIC: HPE's Spin-Merge of Non-Core Software Assets with Micro Focus, *HPE*; September 7, 2016.

HP Enterprise strikes \$8.8 billion deal with Micro Focus for software assets, *Reuters*; September 8, 2016.