

## THERESE POLETTI'S TECH TALES

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### **H-P may want Brocade the most**

#### **Commentary: H-P and Cisco in all-out war for networking firm**



By Therese Poletti, MarketWatch

SAN FRANCISCO (MarketWatch) -- As word leaked out in Silicon Valley that Brocade Communications Systems Inc. hired an investment banker, there is a lot of speculation over which tech giant would make the best match for the networking firm.

While many names are being bandied about as possible acquirers -- ranging from computer makers Hewlett-Packard Co. and IBM Corp. to networking-gear maker Juniper Networks Inc. -- the deal that seems to make the most sense on both a financial and emotional level is H-P.

San Jose, Calif.-based Brocade develops a switching technology used to transmit data to specialized storage devices, similar to a networking switch, but designed for storage area networks. Switches? Networks? Sounds like Cisco Systems Inc.

That is the point. In the last year, a new animosity has been brewing between the former partners, H-P and Cisco, whose products always worked well together. For a few years even, former H-P Chief Executive Carly Fiorina was on Cisco's board of directors, and CEO John Chambers was one of her staunchest proponents.

Those days are over.



H-P's Mark Hurd

It's not clear exactly who was tiptoeing into whose territory first. But since Mark Hurd took over as CEO of H-P, at some point the gloves came off. The gentleman's agreement to stay out of each other's turf is over. Cisco is now making servers and H-P has given a big boost to its long-forgotten networking products, called ProCurve, with a new executive in charge and more investment.

Last year, H-P named Marius Haas, senior vice president and general manager, HP ProCurve. Haas was previously the head of H-P's corporate strategy and corporate development, so it's possible that he or others at H-P got wind of Cisco's intent to enter the server business this year. You can imagine the stunned reaction at Camp Hurd, and then the special orders: "Ok, Marius, I'm putting you in charge. You know what to do." Based on that boiling rivalry alone, it's a good bet that H-P will want to add Brocade to the growing ProCurve line, and get Cisco where it hurts.

At the core of this is an all out war to dominate the data center, and tech giants, including IBM, want to be the one-stop-shop for customers.

"H-P and Cisco are having a pitched battle to win the minds of the data center architects," said **Unni Narayanan, CEO and president of Primary Global Research LLC**, in Palo Alto, Calif. He has been telling his clients for the last six months that Brocade is one of the more attractive takeover targets.

In addition, H-P and Cisco are sparring in the video conferencing arena, first with their high-end video conferencing rooms, and recently with plans for more affordable systems. Not everyone believes that H-P is the best match for Brocade, however. Simon Robinson, an analyst at San Francisco-based 451 Group, in a report to clients in March that he believed Brocade was potentially the next major target for a takeover.

Robinson noted that after Brocade's latest big acquisition, a deal to buy Foundry Networks in 2008 for nearly \$3 billion, the stock fell out of favor on Wall Street. At the time of his report in March, Brocade was just starting to bounce back from its 52-week low of \$2.05. Since then, Brocade has quadrupled since its low point, and jumped last week on the latest takeover speculation.

But because of some of the overlap with H-P's ProCurve products, Robinson does not believe H-P is the best candidate for Brocade. "IBM is a more likely suitor," he wrote. He had one caveat for IBM: that its possible acquisition of Sun Microsystems Inc. might impede the company from doing another deal so soon. That fell through once Oracle Corp. swooped in to buy Sun.

Bill Shope of Credit Suisse believes, though, that Brocade would expand H-P's networking intellectual property in its "increasingly fierce battle with Cisco." "Brocade would fit in this respect, and it would also provide HP with unique storage networking IP," Shope wrote in a note to clients on Monday. There is further evidence to could point to an H-P and Brocade marriage.

There are already connections forged between H-P and Brocade in the investment banking community. The boutique banking firm reportedly hired by Brocade is Qatalyst, the firm founded by former Credit Suisse First Boston banker Frank Quattrone, Qatalyst advised Brocade on its deal to buy Foundry.

And earlier this summer, Qatalyst hired Ian MacLeod, a former Goldman Sachs & Co. managing director, where he was the global head of software investment banking. Among the vast array of deals handled by MacLeod, he sold two companies to H-P: Mercury Interactive for \$4.9 billion and the \$1.7 billion deal for Opware Inc.

The Street has not decided which company will emerge as the most likely buyer, but Brocade is seen now as a hot property. Bank of America analyst Scott Craig noted that "multiple bidders could emerge" and a high premium for Brocade could be the result. Jeff Evenson of Bernstein Research wrote about another possibility: that a combination with Juniper would quickly create the second largest networking company.

So while Chambers, Hurd and others duke it out to dominate the corporate data center, investors in Brocade could be the winners.