

Ecosystem Snapshot: Broadcom's Acquisition of VMware

Comments from Ecosystem Analysts

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The Acquisition

Last month, **Broadcom announced their intentions to acquire VMWare** in a deal worth **USD 61 billion** – one of the biggest acquisitions in the tech world.

Broadcom has been actively looking to diversify away from their core business of chip manufacturing into enterprise software. Their previous acquisitions – **CA Technologies** for USD 18.9 billion in 2018, followed by **Symantec** for USD 10.7 billion the next year – have already indicated that. The VMware acquisition is the biggest – and arguably very different from the others.

Ecosystem Analysts comment on the implications for the companies and the market.



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How is the VMware acquisition different from other Broadcom acquisitions?



Tim Sheedy

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Symantec, [Brocade](#) and CA Technologies were legacy firms, with their best years behind them and Broadcom to an extent gave them a new lease of life. [Software revenue is growing for Broadcom](#) (although moderately) particularly in North America – revenues were down nearly 20% Asia Pacific in the FY 2021.

VMware is not legacy software – the company might have challenges moving from private to hybrid and public cloud, but they have been through their own reinvention, with a focused move from hypervisors to hybrid cloud development and management, and end-user computing. They are even making a play of being the “operating system for cloud”, and the business has reported healthy growth over the past few years. As they craft a path forward, they will need to build and/or buy other businesses to fill in the holes in the development, security and in the end-user computing space. But VMware is not a business that can afford to take their eye off the prize. The hyperscalers are lining up to eat VMware’s lunch, and competitors (like Red Hat, Microsoft, other hyperscalers) are vying for a slice of their new and traditional markets.



What do you think will be the roadmap for VMware?



Alan Hesketh

Principal Advisor,
CIO Advisory &
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This is a tale of two types of product in VMware.

One, the virtualisation software – the foundation of VMware – caters primarily to an on-premises, private cloud market that they dominate. As Broadcom has commented, VMware's customers are primarily complex, regulated and risk-averse, making change slow and carefully considered. It appears to be a perfect product category to acquire and use as a cash-cow. If R&D and overheads are reduced aggressively to increase profitability, customers are unlikely to find alternatives. Broadcom's history with CA Technologies and Symantec shows that this might be the plan for VMware.

Two, the container and security products are public cloud products and sell into a highly competitive market with many capable options. I expect Broadcom to merge these products into their existing products from CA and Symantec – with the aim to achieving synergies, reducing costs and increasing their profitability.



How will VMware's customers be impacted?



Tim Sheedy

Principal Advisor,
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From a revenue perspective, VMware is more than twice the size of Broadcom's existing software revenues. How the two cultures merge, which company "wins" and how that plays out across the rest of the business remain to be seen.

Overall, customers need to find out if Broadcom will increase prices; if the rate of innovation will slow down (which, in the cloud market, is a death knell); will they focus only on big partners and customers; how Broadcom will handle the intricacies of the different cloud markets; and how the acquisition will impact existing partnerships with resellers and service providers. VMware was already struggling to integrate their existing capabilities into a single stack – will Broadcom try to broaden the scope of that integration into the service management and security products they already manage?

Many of VMware's solutions lie at the heart of a cloud and innovation strategy. These are not areas where customers can afford to falter.



How does Dell benefit from this deal?



Niloy Mukherjee

Principal Advisor,
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Go-to-Market

For starters, [Michael Dell](#) stands to gain over USD 24 billion through this deal!

For Dell Technologies, because the separation happened last year, the impact on a day-to-day basis is likely to be minimal. The biggest block last year would have been the dilution in profitability. However, the need to pay down debt over-rode that. Now the impact to the financials is almost non-existent – except that the sale may help to further lower down the debt of Dell Technologies.

At an operating level though for both companies there could be major issues. Given that Dell as a partner, represents almost 35% of VMware's revenues, the ongoing working relationships will be key. VMware has grown fast, and in the past year since separating from Dell as an entity, they have continued to grow (over 9% YoY). A lot of this has been driven by subscription revenues and SaaS, which grew over 23%. This is obviously the right way to grow, and the story is great.



Will this hamper the Dell-VMware partnership?



Niloy Mukherjee

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Hopefully it should not. Dell and VMware have had this strong partnership despite operating separately all along. Unless there is a move by Broadcom to change something fundamental, there is no reason the partnership cannot continue to flourish. The sale also means that VMware will work more with the likes of HPE and the hyperscalers – which is a positive.

The key is in understanding that VMware's market is in tremendous flux. They have always been a leader. The alliance with Dell, helped expand that leadership both with partnerships on products like [VxRail](#) as well as through using Dell's go-to-market execution. However, there are a lot of fundamental changes today. There is an option to work decentralised anywhere with different virtualisation technologies. Containerisation is pushing the envelope to move away from areas which are VMware's traditional strengths. To keep growing, VMware needs to innovate at a fast rate. Being tied to someone else can be a distraction!



What is your general opinion about the deal?



Darian Bird

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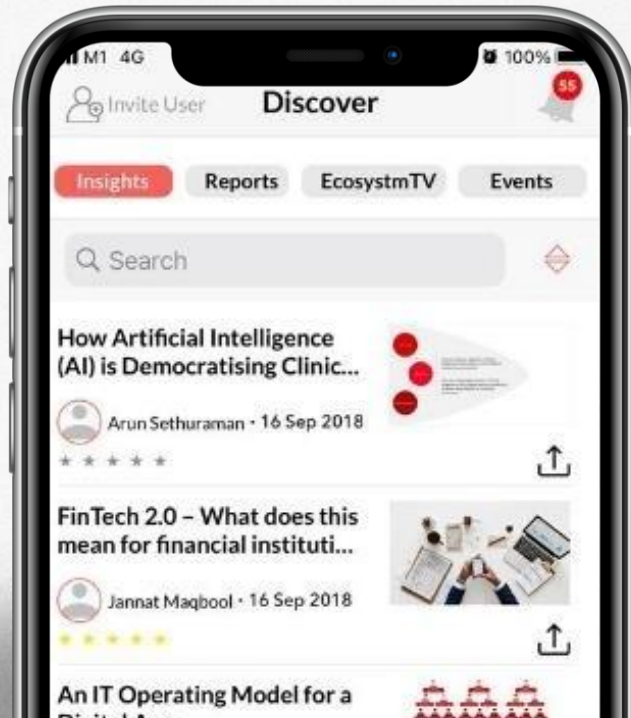
Broadcom has done well so far with their acquisitions. At least financially, they have been paying down debt and the businesses seem to run pretty much stand alone. Which is good news for VMware! However, VMware is not a legacy software struggling to survive. They play a dominant role in virtualisation to become a leader in hybrid cloud. Rather than being threatened by cloud technologies, like Kubernetes, SD-WAN, and public cloud migration, VMware has embraced them and become a leader in those spaces. Broadcom should be wary of diluting the power that VMware possesses by wedging it into a division with their other software assets. Several key leaders have exited this year and a re-organisation to eliminate costs could be risky.



Tim Sheedy

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Broadcom needs to be precise, concise, local and industry relevant in their strategy and guidance for VMware. There are definite upsides to the integration of some of Broadcom's existing assets (such as strengthening the service management/ ITOps toolsets, improving technology observability and management across more environments and better integration of mainframes as a part of the hybrid cloud fabric).



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