'AN ERA HAS ENDED': INSIDE THE $61 BILLION BROADCOM-VMWARE DEAL ROCKING THE SOFTWARE INDUSTRY

A Win for Michael Dell

Michael Dell, who owns a $16.2 billion stake in VMware, has signed off on the deal. Media outlets and analysts widely concluded that this reflects favorably on the billionaire. Forbes called it a "potentially massive windfall" for the Dell Technologies founder.

"We all have to tip our cap to Michael Dell," Keith Townsend, CEO of The CTO Advisor, wrote on Twitter. "He was able to unlock the value of VMware. Investors should be very happy."

"The VMWare deal is great ... for Michael Dell and Silver Lake, but hardly anyone else," Peter Radizeski, founder and president of Rad-Info, also tweeted.

Silver Lake, which owns 10% of VMware shares, also signed his agreement for the transaction.

David Bicknell, principal analyst at GlobalData, expressed the sentiment many analysts have shared: Many of Broadcom's past acquisitions ended in a dismal outcome for the purchasee.

For example, the layoffs at Brocade, which Broadcom bought in 2017, ultimately surpassed 1,100. And that's not the only instance of mass staff reduction.

"VMware should take heed of Symantec and CA Technologies' experiences following their acquisition by Broadcom. CA Technologies reportedly saw a 40% reduction in U.S. headcount, and employee termination costs were also high at Symantec.

Roy Illsley is Omdia's chief analyst of IT ecosystems and operations. He has questioned Broadcom's motivation for the merger. Specifically, is Broadcom first and foremost making a financial play

by grabbing VMware?

"If Broadcom is not just acquiring a cash cow but building a vertical stack of components from chip to app, then this makes sense as it provides them with another key capability in that stack," Illsley told Channel Futures. (Informa Tech is the parent company of both Omdia and Channel Futures.) "The current debate, which has always been a debate, so it is less current and more constant, is the open best-of-breed to single-stack question. IBM with Red Hat has gone the open route. Dell acquired VMware then disposed of it, after presumably deciding the full stack concept was not working."

Illsley noted that a full-stack model may work well with edge computing.

"Each use case will have different ecosystems, so being able to

purchase an appliance and just drop the app on it and it will work from edge to core is appealing," he said.

He said VMware is well positioned with customers. It's also has a platform that is both in the major hyperscalers and on premises. But that comes with a caveat.

"The VMware technology as a stack is expensive, when compared to the newer K8s (Kubernetes) approach. Therefore, the big question is if Broadcom does have full stack ambitions, how is it going to package things and price it? For me, all these uncertainties and questions tend to lead me to ... [the conclusion that] Broadcom is just acquiring technology companies. Something like Quest in the early 2000s, and we know how that ended," Illsley said.

The acquisition will roll up Broadcom's entire software business under the VMware brand. Rajesh Muru, principal technology analyst at GlobalData, said the company's leaders will have their work cut out for them in deciding how these different software assets mesh with one another.

"VMware has really promoted in the last two years its strong network, cloud and analytics capabilities, all complemented with its security capabilities through the Carbon Black acquisition. Broadcom will have to maintain VMware's brand and market positioning without diverting from VMware's previous aspirations and vision. Broadcom still possesses, for example, Symantec's security portfolio under its belt," Muru said. "Therefore, the rebranding of Broadcom's software group as VMware will create software portfolio overlap and potentially create market confusion. Portfolio rationalization will no doubt be on the agenda under the new branding."

Anurag Agrawal questioned which assets will stay and which will go.

"It will be nice if Broadcom retains some of the key VMware product assets such as AirWatch, Carbon Black and Workspace One, and help evolve them to deliver as-a-service solutions," Agrawal said.

Irwin Lazar is president and principal analyst at Metrigy.

"Customers are likely to be able to simplify management of their cloud computing infrastructure, assuming Broadcom and VMware deliver integrated hardware and software management offerings," Lazar said.

Andrew Gilman serves as chief marketing officer of NWN Carousel. The cloud communications service provider is a longtime partner of VMware.

The firm has invested heavily in establishing itself as a leader in hybrid work solutions.

"It could be a device. It may or may not have a Broadcom chip in it. It could have a platform component like a VMware, but we're really delivering a per-user, per-seat, per-month type of outcome that helps organizations work from anywhere," Gilman told Channel Futures.

Gilman said VMware catapulted into the mainstream during the Great Recession of 2007-2009. He said it went from a tier two platform to a widely heralded provider as cloud applications grew in popularity.

"That was the crossing of the chasm from VMware being relatively nascent to something that actually became mission-critical. That was really where cloud first started to prove its worth, but primarily on the application side," Gilman told Channel Futures.

Gilman said the most recent economic event – namely the COVID-19 pandemic – ushered in an entirely new cloud revolution. This one, he said, focuses more on how to enable hybrid work.

"It's all around bringing together capabilities that drive an integrated experience, because IT has been disaggregated. You're not just managing the office environment. You're managing everyone's homes. You're managing the edge and the core. Your IT staff have never been more stretched out. Same thing with your security footprint, and your security posture is now wide," Gilman said.

"Whether you're coming back to the office or trying to make a home worker really productive, what we saw over the past couple of years was a kind of triage, where IT had to figure out how to kind of make everyone productive wherever they were working," added Gilman. "So they did a lot of a lot of point tools. In 2022, this workstyle is really sticking, and everyone's looking to design better, more engaging experiences that are highly dynamic."

Gilman said vendors and their channel partners are seeking to more holstically manage the vast array of end points that have

popped up in the last two years.

"When you have IT point tools, products, hardware and software from lots of different vendors, it's harder to put it all together and make it work if you're inside of an customer IT shop. So that's where I think a lot of these acquisitions are headed, which is really bringing it all together. Because the pieces and part don't really matter to many end users from a cloud delivery model, but they're looking to drive an outcome and deliver an integrated overall experience for their employees and their customers."

Steve Lewis is the CEO of MSP 501-recognized firm Dataprise. He linked the VMware acquisition to CA Technologies (2018) and Symantec (2019) as "mega" deals done in an effort to help Broadcom move up the stack.

Lewis questioned the synergy that exists between Broadcom and VMWare.

"Honestly I don't see it, and there's certainly no value of the combination to any strategic or channel partner that's immediately obvious to me," Lewis told Channel Futures.

He also added that any immediate

benefits for VMware are hard to see.

"From Broadcom's other relevant [portfolio companies] maybe, but to the degree that there is value in VMWare partnering there, they're already doing so. So incremental benefit of the Broadcom angle? Nothing obvious," he said.

Lewis also touched on Broadcom's motivations.

"Is there rationale for Broadcom more broadly? Maybe as it moves them out of the semiconductor stack into software and, perhaps more importantly, into a major recurring revenue stream. But is that really accretive to the Broadcom shareholders? I leave that to Wall St. to determine."

The Broadcom-VMware deal reflects the convergence Gilman sees occurring between software and hardware.

"You want to get the software as tightly integrated into the silicon as you can so you can then build value-added services and offerings on top of it," he said.

Irwin Lazar pointed to the same trend.

"Broadcom can deliver cloud

computing/virtualization solutions that are fully integrated with its hardware, and that could potentially give it a leg up on others who lack hardware optimized for their software," Lazar said.

Gilman said he sees synergies between the companies.

"If you look at the need around providing desktops and refreshing fleets of devices and endpoints, VMware certainly has a strong suit there with virtual desktops. And then Broadcom with chips, being able to power those. Then there's obviously the supply chain background in all of it," he said.

Jay Morris runs advisory firm MOReCOMM Solutions.

"This will be interesting. I, for one, and possibly I am completely alone on this theory, that there are total and complete technology/vertical landmines about to be stepped on," Morris told Channel Futures. "Just like SS7/CCS7 completely changed the way switched TDM traffic was managed in the '80s, someone somewhere is engineering new protocols for adoption globally for IP traffic that will in some instances enable, and in other ways, completely disrupt, if not mothball, some carriers, edge

devices, storage, data centers, security and chips in ways we never imagined."

Bicknell pointed to VMware's strength in cybersecurity, which it boosted through the acquisition of Carbon Black in 2019.

"VMware currently has a strong reputation for its cybersecurity capability in safeguarding endpoints, workloads, and containers. Broadcom's best shot at making this deal work is to let profitable VMware be VMware," Bicknell said.

VMware, on the other hand, can take advantage of Broadcom's resources.

"VMware, part of Broadcom can thrive, particularly if they can leverage Broadcom's infrastructure capabilities and customer base in networks and storage. However, success will depend on how well the businesses integrate across the different business units to make this happen."

The deal still must meet regulatory requirements. That didn't go so well the last time Broadcom tried to complete a mega-merger.

The executive branch of the U.S. government shut down the

proposed $117 billion acquisition of Qualcomm by Broadcom in 2018.

"Although a chip company buying a cloud software company wouldn't ordinarily raise U.S. regulatory concerns, the takeover of a leading-edge U.S. cloud software vendor by a Singapore-based company with very strong links to China might prompt regulatory interest given today's geopolitical backdrop," Bicknell said. "Still, it's unlikely to scupper the deal. After having its fingers burnt by regulators in its failed bid to buy Qualcomm, Broadcom will expect this deal to go through. But it shouldn't be surprised if regulators take a close interest."

Kevin Beasley is the chief information officer at ERP provider VAI.

"Broadcom's acquisition of VMware is a huge move by the global technology giant. By adding VMware's virtualization and cloud computing solutions to Broadcom's offerings, this allows them to expand their cloud-based networking capabilities," Beasley said.

"This acquisition also enables Broadcom's software business to become a major player in the

infrastructure software industry, impacting the competition for top technology talent and boosting cloud innovation," he added.

"With the addition of VMware to Broadcom's offering, they now have additional products that are sold directly to businesses and not just as a supplier for technology companies."