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Topic: Cloud Computing and Digital Workplace

Issue: Who are the software providers and how will they evolve?

Dell Buys EMC – The Rise of a New Tech Titan

Summary: Dell announced that it was buying EMC for \$67 Billion. The big winner will be the Dell Software group, which will now have significant assets to leverage in its growing portfolio.

Event: On 12 October 2015, Dell announced it has agreed to buy EMC for \$67 billion along with its financial partner Silver Lake. As part of the deal, Dell will take EMC private and will retain a majority ownership role in the EMC Subsidiary VMware, which is a publicly traded firm.

Analysis

This deal makes Dell's ambition to be the biggest enterprise services firm closer to a reality. The strategic part of this deal lies in the myriad of software assets that the Dell Software Group will get its hands on, which includes VMware's wholly owned subsidiary AirWatch, a Leader in Enterprise Mobile Management; the EMC RSA Security Group; and Documentum, a leader in Enterprise Content Management. All of these assets, when combined with what Dell Software currently has, immediately make the company a software powerhouse.

Largest Deal Could Spur Mega Consolidation

At US \$67 Billion, the Dell/EMC deal is the largest of all deals in the technology industry. Aragon expects this could also do two things:

- Make Activist Investors even bolder to force consolidation plays.

- Force other large Tech Titans to spend their cash that has been on the sidelines to bolster their offerings.

Is Dell the New HP?

Dell is now one of the largest Tech Titans in the Industry that can offer an enterprise a complete portfolio of capabilities. This positions them to compete at a head-to-head level with Hewlett Packard, which is in the process of splitting into two separate companies.

The Strategic Value of VMware is AirWatch

Dell isn't just obtaining EMC, but all of EMC's ownership in VMware, of which it owns an 80% stake. VMware also owns EMM Mobility Leader AirWatch. While VMware has been seeing slow growth of its core virtualization products, AirWatch is the fastest growing business unit at VMware - having added 5,000 new customers in 12 months. At last month's AirWatch Connect event, VMware CEO Pat Gelsinger reinforced that point.

Dell, EMC, and Content Management

With Documentum responsible for about less than 3% of EMC's total revenues, its significance and importance in a combined Dell/EMC is now rather small. Much of the engineering development for Documentum had been shifted to India and earlier this year, EMC sold Syncplicity. It could potentially get spun out or it could be revived if the Dell Software group understands the size of the Documentum Customer base.

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Impact of Cloud on Storage and Virtualization

Both Dell and EMC were struggling as cloud computing impacted the growth of both virtualization and storage businesses, respectively. The market pressures that led Dell to go private in 2013 also impacted EMC, which has seen activist investors like Elliot Management pushing for it to break up. This deal resolves pressures from activist investors, who are becoming the driving force behind a growing list of tech companies' sales and acquisitions. It will also allow Dell some time to reorganize EMC as a private company without outside pressure.

Moreover, Dell's stake in VMware now enables the company to have a large cloud infrastructure computing business, which is better positioned for PaaS and IaaS more than anything else.

More Tech Fallout to Come

The move by Dell will put pressure on other standalone tech powerhouses to evaluate their go-forward strategies. There are a number of other large and small vendors who now should be considered on the Sell/Buy List. The thing that may accelerate this trend is the fact that activist investors are now targeting technology companies on a regular basis.

Aragon Advisory

- Enterprises need to realize that a major tech consolidation phase could be occurring, and should carefully evaluate existing suppliers with a keen eye to understanding their strategic direction.

Bottom Line

In buying EMC and its other holdings, Dell is now a major Tech Titan that can compete against all others for technology spending by enterprises. While Dell will need to consolidate its offerings, cut costs, and reposition itself, the new Dell

should be considered across the spectrum of its offerings as an alternative to current incumbents.

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