

Broadcom in talks to acquire cloud company VMware

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Broadcom Inc. could announce an agreement to acquire cloud-computing company VMware Inc. as soon as this week, according to people familiar with the matter, setting up a blockbuster tech deal that would vault the chipmaker into a highly specialized area of software.

The offer is likely to be mostly in the form of stock but would include a large cash element, said one of the people, who asked not to be identified because the matter isn't public. Financing for the transaction is in place, the person added.

VMware, backed by billionaire Michael Dell, currently has a market valuation of about \$50.3 billion. The takeover discussions are ongoing, and there's also still no guarantee that the talks will lead to an agreement. Representatives for the two companies didn't immediately respond to requests for comment.

The Wall Street Journal reported that the bid could be around \$140 a share, or \$60 billion. An acquisition at that price implies a price-to-earnings ratio of at least 17, and that's consistent with recent software deals, according to Bloomberg Intelligence analyst Woo Jin Ho.

Shares in VMware rose 25% to \$119.43 on Monday in New York after Bloomberg News first reported that the talks were underway. That was the biggest one-day gain since 2007. Broadcom, which has a valuation of about \$215 billion, fell 3.1% to \$526.36.

A deal for VMware would rank among the biggest-ever acquisitions of a technology company. The industry has been one of the bright spots for bankers in recent months, even as the overall pace of dealmaking slows from 2021's record pace.

Takeovers of technology companies globally are up 46% this year to \$263 billion, according to data compiled by Bloomberg. The tally was buoyed by Microsoft Corp.'s agreement in January to buy video game publisher Activision Blizzard Inc. for \$69 billion. A consortium backed by Vista Equity Partners is acquiring software maker Citrix Systems Inc. for \$13 billion, while Elon Musk announced a \$44 billion deal for Twitter Inc. last month.

The transaction would extend a run of acquisitions for Broadcom Chief Executive Officer Hock Tan, who has built one of the largest and most diversified companies in the [chip industry](#). Software has been a key focus in recent years, with Broadcom buying CA Technologies in 2018 and Symantec Corp.'s enterprise security business in 2019.

In March, Tan told analysts on a post-earnings call Broadcom had the capacity for a "good size" acquisition.

"Investors have been increasingly focused on Broadcom's appetite for another strategic or platform enterprise software acquisition—especially given the recent compression in software valuation," Wells Fargo analysts wrote after the Bloomberg report. "An acquisition of VMware would be considered as making strategic sense; consistent with Broadcom's focus on building out a deepening enterprise infrastructure software strategy."

Structuring the Broadcom offer as mostly stock will let VMware shareholders participate in the upside from the substantial synergies that the deal is expected to yield, the person familiar with the situation said.

Even without factoring in synergies, the transaction could boost earnings by 5% to 10%, Bloomberg Intelligence's Ho said in a report Monday.

Broadcom makes a wide range of electronics, with its products going into everything from the iPhone to industrial equipment. Data centers in particular are a vital source of growth, and bulking up on software gives the company more ways to target that market. VMware makes virtual software that allows users to access systems remotely. The companies don't have overlapping products, but are often used together to manage [data centers](#).

Broadcom has faced antitrust scrutiny over its contracts requiring equipment makers to use its chips in set-top boxes and broadband internet devices. The company settled with European competition authorities in 2020 and with the US Federal Trade Commission last year.

The Information reported last month that the FTC is again looking into Broadcom's use of agreements that require companies to use its hardware exclusively. Given Broadcom's history, antitrust regulators would be likely to probe whether a deal with VMware would give the combined company greater leverage to demand exclusivity with customers.

Broadcom was previously in talks to acquire SAS Institute Inc., a closely held software company valued at \$15 billion to \$20 billion. But those discussions ended last year without a deal.

Tan also was thwarted in his biggest takeover attempt of them all: a bid to buy rival chipmaker Qualcomm Inc. He had to walk away from that deal in 2018 after Broadcom encountered resistance from the Trump administration. One concern was Broadcom's Singapore headquarters, and the company has since switched its domicile to the US. It's now based in San Jose, California, about 20 miles from VMware's Palo Alto

headquarters.

VMware, founded in 1998, is a pioneering Silicon Valley company that has already changed hands more than once. It invented so-called virtualization software, which consolidated applications and workloads on a smaller number of server computers by using each server to handle more than one program.

But as more tasks moved to the cloud, VMware struggled to keep up growth and carve out a key role for itself. The company eventually forged a close partnership with Amazon.com Inc., one of the biggest providers of cloud storage and services.

VMware was acquired by storage technology giant EMC Corp. in 2004. That company then sold a portion of its stake as part of VMware's initial public offering three years later. The business passed to Dell Technologies Inc. when that company acquired EMC in 2016. VMware then spun off from Dell last year.

Michael Dell and private equity firm Silver Lake remain top investors in VMware, according to data compiled by Bloomberg.

Software would help decrease Broadcom's reliance on chips. But its previous forays into that market haven't always been applauded by investors. Tan has argued that he looks for businesses that are "franchises"—ones that hold a strong market position and can be made more profitable without pouring in huge investments.

Shares of Broadcom and VMware had both slid roughly 18% this year through the end of last week, hurt by a broader rout. But they haven't been hit as hard as many tech stocks. The Philadelphia Stock Exchange Semiconductor Index is down 27% this year.

Chipmakers like Broadcom have enjoyed booming sales in recent years, fueled by the spread of semiconductors into more products—as well as by the need for work-from-home technology during the pandemic. But Tan has warned that the boom times probably won't last.

Even after giving an upbeat sales forecast in March, Tan said that the semiconductor industry won't be able to stay on its current trajectory. He expects the chip business to decelerate to historical growth rates of about 5%.

"If anyone tells you otherwise, don't believe it, because it has never happened," he said on a conference call at the time. Industry leaders claiming that the [semiconductor industry](#) can grow at the current rate for an extended period are "dreaming," he said.

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