



Instant Insight
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EMC: Virtually a New Company

By AJ Dennis

EMC Corporation has announced that it has signed an agreement to acquire Palo Alto-based VMware, Inc., a privately held software company, in a cash transaction valued at approximately \$635 million. The acquisition is subject to customary closing conditions and regulatory approvals, and is expected to be completed early in the first quarter of 2004. Upon completion of the acquisition, EMC plans to operate VMware as a software subsidiary of EMC, headquartered in Palo Alto and led by Diane Greene, VMware's current President and CEO.

VMware's technology enables Microsoft Windows, Linux, and NetWare to run simultaneously and independently on the Intel-based servers or workstations. This allows datacenter managers to integrate these "virtual machines" into their existing physical infrastructures and management frameworks. The value of the VMware solution is the consolidation of underutilized Intel servers, significant reduction in server provisioning time, and the dynamic reconfiguration of application workloads across servers and workstations, all without service interruption or downtime for hardware maintenance, deployment, or migration. The company has strong ties to IBM, HP, and Dell with all three hardware makers reselling VMware's software. IBM, in particular, includes the VMware technology as a key piece of its Intel-based server software strategy. EMC has stated that VMware will remain "open and committed" to past OEM and ISV relationships.

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Starting with the Legato acquisition and continuing with Documentum, EMC has been securing strategic value-adds to their tactical storage platform heritage. With the acquisition of VMware, EMC has identified both their strategic vision for the future of the company and the tactical keystone for bridging from their legacy as one of yesterday's leading storage hardware vendors to today's strategic software value-add vendor to tomorrow's virtual information solution powerhouse. With this newly expressed vision of a "virtual information infrastructure," EMC has effectively declared that information management is the software lever in this transformation, virtualization is the fulcrum, and the object they are trying to move is a holistic notion of information lifecycle management (ILM).

In model, VMware's leadership in Intel server virtualization together with EMC's efforts in storage virtualization and information management will be the foundation of this next-generation information lifecycle solution. The company's expressed goal of deploying virtualization technologies across a heterogeneous IT infrastructure to create a single pool of available storage and computing resources, enabling organizations to dynamically configure and reconfigure both their compute and storage environments, is the very essence of the systems abstraction/virtualization that is driving many system vendors' current go-to-market strategies. As these vendors strive to use the same "virtualization" architecture to promote a bottom-up rationalization of the piece parts into something "adaptive" or "autonomic," EMC gets to develop and promote a top-down information mantra as it's focus. The only other vendor story/strategy that has such potential for customers to understand is IBM's eBusiness on Demand. This emerging information solution strategy also leverages EMC's 7,500 Services personnel and gives their 4,500 strong worldwide, enterprise

sales force a new story for the C-level audience and the opportunity to maintain and grow the company's already significant presence in the datacenter.

There are three major challenges we see in deploying VMware in this pivotal role within the EMC vision. The company has forged strong partnerships with IBM, in particular, and HP and Dell. All three hardware makers resell VMware's software, and IBM touts the technology as a key piece of its Intel-based server software strategy.

Where these vendors were willing to allow VMware to "coat-tail" in exchange for such a solid value-add to their portfolio, it is unclear how they will respond (except for Dell, already a hardware partner with EMC and having invested tens of millions in VMware) to EMC, in the backseat. If EMC can manage these relationships successfully and also enable VMware (as well as Legato and Documentum) to continue developing solutions that resonate with customers, it should blunt efforts by IBM and HP to migrate customers to the companies' own home-grown (or acquired) solutions.

The second major challenge is to deliver a synergy between EMC and VMware efforts that does not overshadow the VMware-focused product line of today, but quickly establishes a tangible indication of the value inherent in EMC's inclusive vision. According to EMC President and CEO Joe Tucci, EMC and VMware have been working on a stealth project over the past year which includes building parts of VMware's virtual machine technology into EMC's storage management software. A secure information-oriented solution built on such a storage-to-server virtualization package/product would give EMC a demonstrable lead in convincing customers of the immediate value in virtualization of their infrastructure.

The third challenge will be in EMC acquiring or partnering for the final pieces necessary to make this vision complete. These would naturally include proven database and directory components, as well as a host of smaller elements that could bolster EMC's plans. What is perhaps most interesting about the successive Legato, Documentum, and VMware deals is how they have brought EMC's ongoing raft of acquisitions during the past two years into tighter focus. With that in mind, we believe the company is not quite done in building (or acquiring) the necessary tools to make ILM a real world solution. This is not likely to be regarded as a happy thought for EMC's competitors.

Overall, by acquiring VMware EMC has taken a piece of the high ground in industry standard virtualization with its vision of a "virtual information infrastructure." From its credible position in storage and its new software value-add potential, EMC has a place at the table in the three- to five-year "virtualization" cycle the IT industry is about to embark upon. With no server system business of its own to protect, EMC can create a more level playing field for its interpretation of "virtual"; one that abstracts its systems competitors' piece parts and includes them in a big tent vision where any kind of information can live.