



Instant Insight

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## EMC Acquires LEGATO

*By Charles King*

EMC and LEGATO Systems today announced a definitive agreement for EMC to acquire LEGATO in a stock transaction valued at approximately \$1.3 billion. According to EMC, LEGATO's strengths in heterogeneous information protection and recovery, hierarchical storage management (HSM), automated availability, and email and content management will complement EMC's focus on heterogeneous storage management and significantly enhance its greater storage solution and service offerings. Further, LEGATO's software-focused sales expertise, channel partner relationships, and service capabilities are expected to complement EMC's distribution strategy. Under the terms of the agreement, Legato shareholders will receive 0.9 of a share of EMC common stock for every share of LEGATO common stock. Upon completion of the acquisition, EMC intends to operate LEGATO as a software division of EMC led by David B. Wright, LEGATO's current chairman and CEO.

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For what the calendar says is the traditional IT industry's quietest season, EMC has been doing whatever it can to keep things interesting, with last week's announced partnership with BMC (along with the purchase of BMC's PATROL Storage Manager) followed by this week's more formidable acquisition of LEGATO. How much more formidable? The first deal included a significant agreement by BMC to support EMC's ControlCenter as its storage management solution of choice, but only brought 50+ actual storage customers into the EMC fold. With approximately 31,000 customers and 400 channel partners, LEGATO is generally ranked just behind leader Veritas among ISVs in the storage backup and recovery market, and offers a wide range of other heterogeneous storage management solutions. In other words, when this deal is consummated, EMC will have broadened its already considerable footprint in storage management software and service offerings, bolstered its efforts in delivering solutions for managing heterogeneous storage environments, and notably extended both its sales and channel programs.

While the deal looks good for EMC, what does it mean for LEGATO and other players in the storage management market? The fact is that over the past two years, a sluggish economy and stalled IT spending have devastated many IT vendors and consultants, and led to wide ranging consolidation across the industry. At the same time, hardware vendors from systems players such as IBM and HP to specialists like EMC have made a concerted push into the infrastructure software space, seeing it as a key to survival as industry standardization continues to gut hardware profit margins. The result is that while hardware vendors continue to work with ISVs like Veritas, LEGATO, and many others, their own in-house software efforts often compete with and take market share from their partners' solutions. That dynamic has decimated many smaller ISVs, and placed continuing pressure on even the largest players. By joining with EMC, LEGATO should enjoy a synergistic relationship that should both offer the company entry to new classes of enterprise customers and provide EMC a host of new solutions and access to a large number of smaller organizations. Additionally, the tenor of today's announcement suggests that EMC sees LEGATO's holistic model of information lifecycle management (ILM) as highly complementary to its own product and service lines.

But if a partnership is good news for some vendors, is it seldom greeted happily by their competitors. For enterprise systems vendors which are pursuing their own storage software strategies, the EMC/LEGATO deal means that an already tough opponent has gotten measurably tougher. The combination of capabilities offered by EMC/LEGATO is well able to go toe-on-toe with IBM/Tivoli's storage solutions, and leaves HP's own storage software products looking somewhat anemic in comparison. We were also interested to note that EMC is following a behavioral model similar to IBM's management of Tivoli in setting up LEGATO as a separate software division, allowing LEGATO to continue its independent development and sales efforts as the two companies learn to work together. The biggest potential loser in the deal could be Veritas, which as the largest ISV in a continually expanding market also represents the biggest target. While some might suggest that the LEGATO deal could drive Veritas into the arms of its own white knight, the company's current stock value makes it a pricey if not overvalued target, at best.

The real winners here are enterprise customers. EMC's aggressive software strategy has helped the company broaden its influence among existing customers while extending its reach into new areas. Additionally, EMC's recently renewed strategic partnership with Dell has provided the company entry into a mid-market that once considered EMC out of reach. LEGATO should both complement EMC's strategic efforts and help to extend them further among LEGATO's thousands of customers. Overall, we see this deal as great news for the principals, good news for customers, and lousy news for the competition. In the world of acquisitions and mergers, it seldom gets better than that.