

VMware Making Moves To Win Market Share In Virtualization/Cloud Markets

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The cloud computing and virtualization markets seem to be hot topics in the technology sector days, which places small- and mid-tier firms providing these technologies at the forefront of exciting changes taking place within the marketplace. Within the federal group at Deltek, we are always keeping tabs on these hot sectors, and I personally have an interest in what's going on in the Mergers and Acquisitions (M&A) arena surrounding these hot markets.

Within these sectors, one company which has been making noticeable moves over the past few months is virtualization software juggernaut VMware, which has been among the most active participants in the M&A market, snapping up small- and mid-tier players to add "breadth and depth" to its product lines.

Last week, VMware agreed to acquire software-defined networking firm Nicira for \$1.26 billion, as it continues its efforts to virtualize all aspects of the data center. Nicira, which is VMware's largest acquisition to date in terms of price, provides software that creates an abstraction layer between servers and networking gear, allowing organizations to decouple the network topology from the equipment, creating virtualized pools of networking capability. The deal is expected to close by the end of the year.

FIA Perspective:

VMware continues to make acquisitions in virtualization and cloud markets. Over the past several years, acquisitions have been an integral part of VMware's growth strategy, and the company has been focusing on smaller firms which can be easily integrated into its existing product portfolio, thereby expanding its product lines in the areas of virtualization and cloud management.

Besides the Nicira purchase, VMware has been making other recent moves in the M&A arena, and we highlight each of these acquisitions below:

- Last month, VMware acquired cloud computing provider DynamicOps Inc. for an undisclosed sum. Burlington, Mass.-based DynamicOps develops solutions that help in running virtual workloads (hypervisor) across diverse cloud platforms. Hypervisor software (also known as virtual machine manager) allows several operating systems to share a single hardware host.
- In May 2012, VMware also acquired Wanova Inc., a cloud-based desktop virtualization solutions provider, for an undisclosed amount. The Wanova technology makes thick or thin Windows devices manageable in a very flexible and centralized way, and complements VMware's View product line and emerging horizon portfolio of multi-device end-user solutions.
- In late April, VMware purchased Cetas, a big data startup that provides analytics atop the Hadoop platform, for an undisclosed amount. This acquisition is expected to strengthen VMware's Cloud Applications Platform moving forward.

In 2011, VMware completed 7 acquisitions to expand its portfolio in the areas of virtualization and cloud computing, including Digital Fuel, Neo Accel, Packet Motion, Shavlik, SlideRocket, Socialcast and WaveMaker. It also acquired certain assets from EMC's Mozy cloud-based data storage and data services.

Overall, we believe VMware will continue to look to acquisitions to drive its long-term growth strategy, and allow it to better compete with top-tier rivals (like Microsoft and Citrix Systems) in the high-growth virtualization and cloud computing markets. At the end of the latest quarter, VMware had about \$5.35 billion in cash and cash equivalents in its arsenal to put towards further acquisitions.

VMware posts solid results in 2Q. In the latest second quarter, VMware saw its revenues rise 22% to \$1.12 billion compared with last year's second quarter. At the same time, the company said its per-share profit minus items rose 24% to 68 cents from 55 cents in the year-earlier quarter. On its earnings call, VMware noted that its "deal pipeline remains very strong," and that it "expects to have a solid second half of 2012."

Looking ahead, VMware anticipates revenue in the range of \$4.54 billion to \$4.64 billion for fiscal 2012, an increase of 20.5% to 23% from fiscal 2011, primarily driven by strong license revenue growth. It also expects operating margins in the range of 30.25% to 31.25% for 2012, the company said.

Management shuffle should benefit both VMware and EMC. A few weeks ago, VMware and its majority owner, storage giant EMC Corp. (which owns 80% of VMware), announced a management reshuffle that will give the CEO position at VMware to Pat Gelsinger, an EMC executive. He will be replacing Paul Maritz, a former Microsoft executive, who will be taking the Chief Strategist position at EMC. Gelsinger plans to take over the reins at VMware in September.

With the executive swap, Maritz may be in line to become the new vice-chairman at EMC, and looking towards replacing current EMC Chief Executive Joe Tucci at some point in the not-so-distant future. Tucci, who had recently planned to retire in 2012 (but has now backed off), is 65 years old, and probably relatively close to the end of his tenure as CEO.

Overall, this will likely be a smart and smooth transition for both companies, with the executive swap potentially enhancing both VMware's and EMC's CEO positions moving forward. The executive moves are also likely to allow VMware and EMC to better-align their product portfolios, while boosting the potential for new software-based, higher-margin revenue streams at EMC.

Around the time the executive change was announced, it was also rumored that VMware and EMC may be planning to spin-off some of their cloud assets into a separate company, according to a [report](#) by GigaOm. The article noted that the new company would include VMware's Cloud Foundry platform-as-a-service division and EMC's Greenplum business, as well as an EMC/VMware joint venture in the infrastructure-as-a-service segment called Project Rubicon. GigaOm noted that the spin-off would be put together to build a cloud computing services firm that could compete with top rivals Google, Microsoft and Amazon.com.

Conclusion:

Any way you slice it, VMware is positioning itself to be a top-tier performer in the virtualization and cloud computing markets. With the recent management changes, acquisitions, and potential spin-off of its cloud assets, the company is making noticeable moves to establish a market leading position in these high-growth sectors, while enhancing its product portfolio to pursue growth within the virtualization and cloud markets over the next several years.