



TAPMI

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TAPMI FINANCE FORUM

The Bulls You Can Bank Upon



AACSB
ACCREDITED

MERGERS AND ACQUISITIONS



Broadcom Inc. & VMware LLC



Overview of the Industry

The Technology Infrastructure and Software Industry is a cornerstone of digital transformation, enabling global connectivity through advancements in computing, networking, and enterprise solutions. It forms the backbone of modern data-driven economies, driving innovations in cloud computing, virtualization, and semiconductor technologies. From consumer devices to large-scale data centers, this industry powers essential digital infrastructure, supporting businesses and individuals alike.

As a catalyst for innovation, the industry plays a crucial role in enhancing IT efficiency, securing digital assets, and meeting the rising demand for high-speed connectivity and advanced computing. Technologies such as artificial intelligence, 5G, and the Internet of Things (IoT) continue to shape its evolution. By ensuring scalability, resilience, and adaptability, the industry transforms how businesses operate, fostering growth in an increasingly digital and interconnected world.

Parties Involved

Acquirer: Broadcom Inc.

A global leader in semiconductor and infrastructure software solutions. It designs storage adapters, controllers, networking processors, and optical sensors. The company also provides security and infrastructure software to optimize complex hybrid environments.

Target: VMware LLC

Specialized in cloud computing and virtualization technology. It offers SaaS solutions to tackle IT inefficiencies, business continuity, and software management. VMware primarily serves customers in California.

Target	1) VMware LLC	Acquirer	2) Broadcom Inc	Currency	USD
	VMW US Px USD 142.48		AVGO US Px USD 97.2	Announcement	05/26/22
	Infrastructure Software		Semiconductor Devices	Transaction Value	70,289.26M

Reasons For The Acquisition

Broadcom's acquisition of VMware strengthens its position in enterprise software by leveraging VMware's expertise in virtualization and cloud computing. The deal will generate cost synergies through operational efficiency and optimized R&D while boosting revenue via cross-selling and market expansion. Financial benefits include improved cash flow management and capital allocation. It also enhances Broadcom's market power, customer retention, and innovation. This acquisition drives long-term growth and strengthens its competitive edge.

Timeline Of Acquisition

Variation in Stock Prices of the parties involved during the acquisition:

	Broadcom INC (in \$)	VMware LLC (in \$)
Proposal	119	53
Announcement	125	56
Completion	142	97



The stock price movements indicate a positive shareholder response to the Broadcom VMware deal.

Key Reasons for Optimism:

- 1. Regulatory Clarity – Final approval reduced uncertainties, boosting sentiment.
- 2. Investor Confidence – Broadcom’s strong track record in execution.
- 3. Premium Offer – VMware shareholders likely received an attractive valuation.
- 4. Market Positioning – Strengthened presence in cloud computing and enterprise software.
- 5. Synergies & Growth – Expected cost savings, revenue expansion, and financial benefits.

Background Of Acquisition

The acquisition was announced on May 26th, 2022, and was completed on Nov 22nd, November.

Dates	
Announcement	05/26/22
Completion	11/22/23
Status	Completed
Duration (# Days)	545

Deal Structure

Deal Overview:

- 1.Acquiring Company: Broadcom**
- 2.Target Company: VMware**
- 3.Deal Type: Cash or Stock**
- 4.Deal Value: \$70.3 Billion**

Transaction Terms:

- 1.Stock Exchange Ratio: 0.2520**
- 2.Deal Currency: USD**

Financing Structure:

- 1.Equity Consideration: \$82.99B**
- 2.Debt Assumption: \$10.16B**

Deal Timeline:

- 1.Announcement Date: May 26th, 2022**
- 2.Completion Date: Nov 22nd, November**

Terms Of The Deal

The bid is friendly in nature, with Broadcom seeking to acquire 100% ownership of VMware. Shareholders of VMware can choose between \$142.50 in cash per target share or a stock option of 0.2520 Broadcom shares per VMware share as payment. This cash-or-stock structure reflects flexibility in deal execution.

Deal Terms (* Approximate)		
Nature of Bid		Friendly
Percent Owned/Sought	0% /	100%
Payment Type		Cash or Stock
Cash Terms (per Tgt Sh)	USD	142.5000
Stock Terms (Acq Sh/Tgt Sh)		0.2520

Deal Value

The transaction value increased from \$70,289.26 million (announced) to \$93,140.28 million (final), while the equity value rose from \$60,131.26 million to \$82,982.28 million. The premium offered also increased from +36.68% to +38.32%, reflecting enhanced value for VMware shareholders. The debt assumption remained constant at \$10,158 million throughout the deal.

Advisors

On the target side, financial advisors include firms such as Goldman Sachs, which earned a fee of USD 45.0 million, alongside others like JP Morgan and Standard Chartered. Allen & Gledhill and Debevoise & Plimpton provided legal advisory services. The acquirer side includes financial advisors like Barclays, Morgan Stanley, and Wells Fargo, with legal advisors such as Ellex and Cooley LLP. For the seller, Stifel served as the financial advisor, and Simpson Thacher & Bartlett provided legal counsel.

Key Implications

- **Enterprise Software Expansion:** Broadcom strengthens its position in multi-cloud and hybrid cloud management with VMware's vSphere, Tanzu, and NSX.
- **Cost Optimization:** Focus on high-margin segments while restructuring or divesting underperforming units to improve efficiency.
- **Customer & Partner Impact:** Cross-selling opportunities arise, but concerns over pricing and service changes remain.
- **Competitive Edge:** Enhances Broadcom's position against Microsoft and Amazon, expanding its multi-cloud strategy.
- **Business Model Shift:** VMware's subscription-based model ensures stable recurring revenue.
- **Diversification:** Post-acquisition, software is expected to contribute 49% of total revenue, making Broadcom a more balanced tech company.

Impact on the Share price:

Pre-Acquisition Announcement (Before White Line):

- Stock Price: Approximately \$42.71 (low on 10/14/22) to around \$72 before the announcement.
- Volume: Relatively steady, averaging below 20M shares.

Post-Acquisition Announcement to Completion (White Line to Red Line):

- Stock Price Surge: From approximately \$72 to a peak of \$140.70 on 03/07/24.
- Growth: ~95% increase in price during this period.
- Volume: Significant spikes, particularly around key updates, peaking near 60M shares.

Post-Acquisition Completion (After Red Line):

- Stock Price: Gradual increase from \$135 to the current \$162. Volume: Stabilized at a lower level, averaging 21M shares



Risks Involved

1. Integration Risks – Cultural misalignment and system integration challenges may cause employee turnover and operational delays.
2. Customer Retention Risks – Price hikes could push VMware's customers to rivals like Microsoft and AWS.
3. Financial Risks – High debt and synergy delays may strain Broadcom's cash flow and investment capacity.
4. Innovation Risks – R&D cuts could slow VMware's growth, weakening its competitive edge.
5. Competitive Risks – Microsoft and Amazon may exploit VMware's vulnerabilities to gain market share.

Regulatory And Legal Considerations

- **Regulatory Scrutiny:** The acquisition faces antitrust review from the U.S. FTC, European Commission, and other global regulators.
- **Competition Concerns:** Issues include potential monopolistic practices, price hikes, bundling, and limits on VMware's multi-cloud compatibility.
- **Jurisdictional Reviews:** Delays may arise due to differing regulations in the EU, China, and geopolitical tensions.
- **National Security Risks:** U.S. CFIUS may assess VMware's role in critical IT infrastructure.
- **Compliance Challenges:** Broadcom must adhere to data protection laws like GDPR and manage risks such as shareholder lawsuits and labor disputes.
- **Regulatory Conditions:** Possible divestments, operational commitments, and ongoing compliance monitoring could complicate integration.

Conclusion

Broadcom's \$70.3 billion acquisition of VMware accelerates its shift to a software-driven business, raising software revenue to 49% and adding \$8.5 billion in EBITDA over three years. VMware's cloud and virtualization expertise strengthens Broadcom's position in multi-cloud and enterprise IT. However, integration challenges, cultural differences, and potential innovation disruptions pose risks. The significant debt incurred raises concerns over financial leverage and synergy realization. Regulatory scrutiny in the U.S. and EU may lead to delays or modifications. Broadcom must also comply with data protection laws and address customer concerns over cost-cutting. Retaining VMware's customer base is crucial to long-term success. The acquisition offers strong growth potential but depends on seamless integration and regulatory approvals. Broadcom must balance profitability with VMware's innovation and market leadership.



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