

Broadcom looks to buy VMware in wider software and cloud expansion

Article

The news: Broadcom is in talks to acquire cloud computing company VMware, marking a potential blockbuster deal that could help the chipmaker expand into software and services,

[per](#) Bloomberg.

More on this: Broadcom and VMware are reportedly in buyout negotiations, and while a deal is not imminent, a potential acquisition would diversify Broadcom into a full-service tech firm. The move is indicative of chipmakers pivoting to cloud and edge computing. In context, [AMD bought Xilinx](#) for \$49 billion in February.

- Broadcom makes an array of chips used in mobile phones and telecom networks. Adding VMware would allow it to expand into cloud services as well as enable expansion into data centers.
- VMware—a cloud computing and virtualization company—currently has a \$40 billion market valuation and was previously a [subsidiary](#) of **Dell Computers**.
- Its addition could help Broadcom expand into software and services with a focus on the profitable services and cloud computing market.
- In context, VMware makes virtualization software allowing computers to emulate other machines as well as software for data centers.
- Broadcom has been on an acquisition and expansion tear and even [tried to buy mobile chipmaker Qualcomm](#) for \$103 billion in 2017.
- **Broadcom CEO Hock E. Tan** has built up the company through timely acquisitions. Recent additions include **CA Technologies** for \$18.9 billion in 2017 and **Symantec's** security division for \$10.7 billion in 2019, further proof of software-focused expansion.
- VMware's stock rose 20% in premarket trading on Monday, valuing the company at about \$48 billion, [per](#) the New York Times. Broadcom's shares, which are valued at more than \$200 billion, fell 4%.

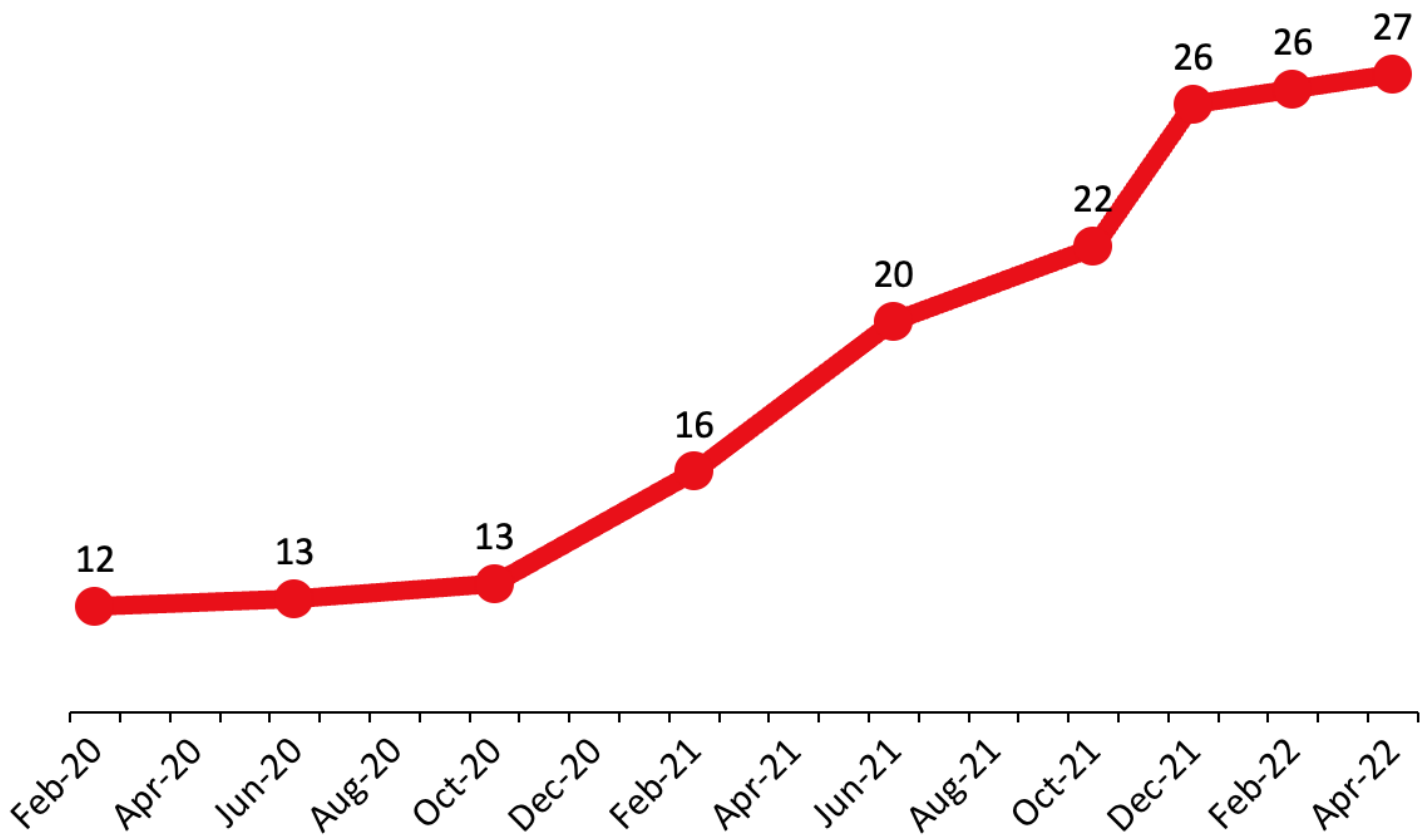
The bigger picture: Acquiring VMware could help Broadcom decrease its reliance on chips, during a prolonged [component](#) shortage. By acquiring an established cloud computing player, Broadcom can diversify its business and invest in a market that is [expected to reach a \\$750 billion by 2027](#).

- Tan said in March that he doesn't expect the semiconductor industry to stay on its current trajectory and expects the chip business to decelerate, [per](#) Bloomberg.
- With various countries [backing aggressive chip fab expansion](#) to bring manufacturing to their shores, reliance on monolithic chip companies is expected to fall off.

- Other chipmakers like **Intel** are similarly looking for alternatives by [expanding chip foundry services for other companies](#), as well as developing [autonomous driving](#) technology.

Key takeaway: Chipmakers like Broadcom are looking to diversify in anticipation of the expected slowdown once the chip shortage abates. Companies like VMware could be attractive targets for future software and cloud pivots.

Gap Between Ordering a Chip and Delivery (In weeks)



Source: Susquehanna Financial Group, 2022

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