

Broadcom's Acquisition of VMware

M&A CASE STUDY

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1. Executive Summary

Broadcom's \$61 billion acquisition of VMware, one of the largest tech deals in history, signals Broadcom's shift toward enterprise software. The deal, structured as 50% cash and 50% stock, provides VMware shareholders with a 44% premium.

The acquisition aims to create a diversified tech powerhouse. By adding VMware's virtualization and cloud software portfolio, Broadcom nearly doubles its revenue and triples its software segment, balancing its hardware business with a stable, high-margin software operation. The combined company will offer integrated solutions from semiconductors to cloud management, addressing enterprise infrastructure needs.

Broadcom plans to unlock significant synergies through operational streamlining and cross-selling. Management expects \$8.5 billion of incremental EBITDA in a few years from cost reductions and efficiency gains. The deal is projected to boost Broadcom's earnings per share from year one, with analysts forecasting 10%+ accretion by the second year.

Financing the deal, Broadcom raised \$32 billion in debt and issued around 12% equity to VMware shareholders, maintaining a prudent leverage profile. The integration of VMware's workforce and product innovation will be crucial for success. Despite regulatory concerns, approvals were obtained.

If the integration succeeds, the acquisition will strengthen Broadcom's competitive position, establishing it as a dominant provider of cloud infrastructure solutions, while delivering long-term growth and substantial shareholder value.

2. Transaction Overview

Broadcom Inc. (NASDAQ: AVGO) announced in May 2022 a definitive agreement to acquire VMware Inc. (NYSE: VMW) in a transaction valued at approximately \$61 billion. The deal consideration was a mix of 50% cash and 50% stock, allowing VMware shareholders to elect either \$142.50 in cash per share or 0.2520 shares of Broadcom for each VMware share (subject to proration). This offer represented a roughly 40–44% premium to VMware's unaffected share price before rumors emerged. Broadcom also agreed to assume \$8 billion of VMware's net debt, bringing the enterprise value of the deal to about \$69 billion.

At announcement, the transaction was one of the largest tech acquisitions ever (second only to Microsoft's pending Activision deal that year). Both companies' boards unanimously approved the deal. VMware's major shareholders Michael Dell (40%) and Silver Lake (10%) supported the acquisition, signing agreements to vote in favor. The merger agreement included a 40-day "go-shop" period for VMware to solicit alternative offers, but no superior bid emerged.

The acquisition faced extensive regulatory review across multiple jurisdictions given its size and potential competitive impacts. Clearance was required in the U.S., EU, UK, China, and others. After an 18-month review, all necessary approvals were obtained by November 2023. The deal closed on November 22, 2023, with VMware becoming part of Broadcom's software group (rebranded as VMware). Upon closing, VMware shareholders collectively owned about 12% of the combined company, while existing Broadcom shareholders owned roughly 88%. Broadcom's stock reacted positively to the announcement (up ~3.5% that day), reflecting investor optimism about the strategic fit and financial benefits of the merger.

3. Deal Rationale

Diversification and Software Expansion:

Broadcom's primary motivation was to accelerate its expansion into enterprise software and diversify beyond its core semiconductor business. VMware – a leading provider of cloud and virtualization software – offers “sticky,” mission-critical software used by a vast enterprise customer base. Acquiring VMware would nearly triple Broadcom's software revenue (to about 49% of total revenue) and roughly double Broadcom's overall revenues, transforming Broadcom into a hybrid semiconductor and infrastructure software company. This helps Broadcom reduce its reliance on cyclical chip markets and secure more stable, recurring revenues from software subscriptions and services.

Cost Synergies and Margin Expansion:

Broadcom has a “tried-and-true” M&A strategy of cutting costs and optimizing cash flows in acquired companies. With VMware, Broadcom's management sees significant potential to streamline operations (e.g., reducing overlapping SG&A and R&D spending) and improve profitability. Broadcom projected about \$8.5 billion in incremental pro forma EBITDA from VMware within three years post-close, highlighting substantial cost synergies. By aggressively expanding VMware's operating margins (consistent with Broadcom's past acquisitions of CA Technologies and Symantec's enterprise division), Broadcom expects to unlock greater cash flow from VMware's business.

Cross-Selling and Portfolio Breadth:

VMware's products (virtualization, multi-cloud management, networking, security, etc.) are highly complementary to Broadcom's existing software tools for infrastructure and security. Broadcom plans to leverage VMware's strong relationships with global enterprises and cloud customers to cross-sell its broader software portfolio. Conversely, Broadcom can bundle VMware's software solutions with its own hardware (networking, storage, and server chips) to offer integrated solutions. This combined platform aims to give enterprise customers greater flexibility to “build, run, manage, connect and protect” applications across on-premises and cloud environments. The breadth of the combined product offer is expected to increase customers' reliance on Broadcom-VMware for critical IT infrastructure needs.

Access to Blue-Chip Clients and Innovation:

VMware's client base includes many Fortune 500 companies and government organizations, which Broadcom can now directly engage. VMware's reputation as an “iconic pioneer” in virtualization and cloud software also brings valuable human capital (engineering talent) and intellectual property. Broadcom's CEO praised VMware as an “innovator in enterprise software” that will enable Broadcom to deliver more for customers as a leading infrastructure technology company. In the long run, Broadcom expects the combined firm to drive new innovations (for example, multi-cloud and sovereign cloud solutions) and strengthen its competitive positioning in enterprise tech.

Shareholder Value and Premium:

For VMware's shareholders, the deal offered an attractive exit value — a significant cash premium (~44% above pre-announcement price) while also giving those rolling over stock an opportunity to participate in the upside of the combined company. VMware's chairman and biggest shareholder endorsed the merger as a “landmark moment” that would position VMware to deliver even more to the world's largest enterprises under Broadcom's ownership. The substantial premium reflected Broadcom's confidence in achieving value creation through integration.

4. Valuation Analysis

Offer Premium and Multiples:

Broadcom's \$61 billion offer equated to about \$138–\$142 per VMware share, implying a ~44% premium over VMware's pre-rumor stock price. This price valued VMware at approximately 4.6× LTM revenue and 25× LTM EBITDA on a standalone basis (using approximately \$12.9 billion revenue and \$2.3 billion EBITDA). These multiples are elevated compared to Broadcom's own valuation (~7.7× revenue, 13.6× EBITDA) and relative to other large software acquisitions, indicating a rich price paid. However, Broadcom justified this valuation based on VMware's strong cash flows and the significant synergies anticipated.

Notably, if VMware achieves \$8.5 billion EBITDA post-synergies (Broadcom's target), the effective purchase multiple would drop to roughly 8× EBITDA, which is highly accretive by industry standards.

Intrinsic DCF Assessment:

A discounted cash flow analysis of VMware's standalone business (without synergies) suggests that Broadcom paid well above VMware's standalone intrinsic value. Using reasonably conservative assumptions, we estimate VMware's standalone enterprise value at approximately \$27 billion and equity value around \$19 billion, or roughly \$45 per share (at a 9.4% WACC and 2% terminal growth). This is significantly lower than the \$138 offer price, implying that the deal's value gap is attributable to expected synergies and strategic premium.

In other words, Broadcom was willing to pay a price that assumes the realization of substantial cost improvements and cross-selling revenue that VMware could not attain on its own.

Broadcom's share price actually rose on the deal announcement, indicating that investors believed the price was justified and that the transaction would create value for Broadcom's shareholders. One reason is Broadcom's strong track record of executing acquisitions and expanding margins. Additionally, the competitive process (including a go-shop period) did not yield higher offers, suggesting Broadcom's bid was at the top end of VMware's valuation range.

Overall, while the upfront valuation multiples were high, Broadcom's management clearly determined that VMware's long-term strategic value and synergy potential warranted the premium.

5. Financing Structure

The acquisition was structured as a half-cash, half-stock deal. Approximately \$30.5 billion in cash was required (for 50% of the \$61 billion equity value). Broadcom secured a \$32 billion debt financing commitment from a consortium of banks to fund this cash portion. This consisted primarily of new term loans, which Broadcom drew at closing. Broadcom has since refinanced a portion of this loan with bond issuances, taking advantage of favorable credit markets.

The remaining 50% of the purchase price was paid in Broadcom stock, achieved by issuing new Broadcom shares to VMware shareholders. Based on the agreed exchange ratio (0.2520 Broadcom shares per VMware share) and Broadcom's share price at the time, roughly 105 million new Broadcom shares were issued. This resulted in VMware stockholders owning about 12% of the combined company post-merger.

Broadcom also absorbed VMware's \$8 billion of existing net debt, increasing Broadcom's consolidated debt. Pro forma total debt rose significantly, but Broadcom's leverage remained moderate given Broadcom's and VMware's combined EBITDA. Credit rating agencies estimated

pro forma debt-to-EBITDA around the low 2× range, and Broadcom retained its investment-grade credit ratings.

Broadcom's management affirmed its commitment to rapidly de-leveraging using the strong post-merger cash flows. Broadcom stated it would maintain its dividend policy of paying approximately 50% of prior-year free cash flow as dividends, signaling confidence that debt can be paid down while rewarding shareholders.

The transaction structure did not require Broadcom to raise equity externally (the stock consideration came from issuing shares directly to VMware owners). The use of a large stock component also helped Broadcom preserve cash and limit new debt, aligning with its aim to keep a solid balance sheet. The cash/stock mix further balanced risk: VMware shareholders would share in the upside of the merged entity via stock, and Broadcom avoided over-leveraging.

The deal incurred a one-time financing cost (loan commitment fees and bridge loan interest), but Broadcom's strong cash generation should allow it to pay down the acquisition debt within a few years. Overall, the financing structure is considered prudent, ensuring that Broadcom can integrate VMware without straining its financial stability.

6. Accretion/Dilution Impact (EPS Impact Analysis)

From Broadcom's perspective, the acquisition was structured to be EPS-accretive within the first two years post-close. On a pro forma basis, Broadcom's share count increased by roughly 12% due to the new shares issued to VMware investors. This dilution in ownership is partially offset by the addition of VMware's earnings and the anticipated cost synergies.

In the first year, before major synergies were realized, the deal's impact on EPS was close to breakeven or slightly positive. VMware contributed additional revenue and operating profit, but Broadcom also incurred new interest expense on approximately \$30 billion debt. However, Broadcom's debt financing was obtained at investment-grade rates, and VMware's steady free cash flow helped cover the interest costs.

As cost synergies begin to materialize (e.g., Broadcom streamlining VMware's operations), net income is expected to rise, leading to increasing accretion. Analysts estimated approximately +2–3% accretion to Broadcom's EPS in FY2024 (the first full year post-close) and around +7–10% accretion by FY2025.

In fact, if Broadcom achieves its synergy targets faster or de-levers sooner, EPS accretion could exceed 10%. Broadcom's management has indicated that the combined company's free cash flow would jump approximately 30%+ versus standalone Broadcom, which can accelerate debt repayment and support higher dividends. These factors all boost earnings per share for Broadcom shareholders.

It's worth noting that Broadcom's share price significantly increased from announcement to closing, effectively making the stock portion of the deal more expensive (the total deal value rose to approximately \$71–\$72 billion by closing). Despite this, the deal structure preserved the EPS accretion — meaning the additional shares and costs were still outweighed by VMware's earnings contribution and synergies.

Broadcom successfully achieved the expected 2–3% EPS accretion in FY2024 following the VMware acquisition. Strong cost synergies — including reducing VMware's quarterly expenses from about \$2.4 billion to \$1.2 billion and raising its operating margin to 70% contributed significantly to this growth. Analysts expect EPS accretion to further increase by 7–10% in

FY2025, supported by continued VMware integration and AI-driven revenue growth.

7. Risks and Challenges

Regulatory and Antitrust Risk:

Given Broadcom's size and the importance of VMware's products in data center infrastructure, regulators scrutinized the deal for potential anti-competitive effects. Authorities in the EU and UK examined whether the combined company could unfairly bundle products or raise prices to the detriment of customers. Ultimately the merger was cleared up, but only after delays and commitments by Broadcom. Future regulatory actions remain at risk if Broadcom is perceived to abuse its enhanced market position. Ongoing monitoring of Broadcom's post-merger conduct will continue, and any compliance issues could result in fines or operational restrictions.

Integration and Cultural Challenges:

Integrating VMware's approximately 37,000 employees with Broadcom's organization are a significant undertaking. Broadcom has a very different culture, known for disciplined cost management, which could clash with VMware's more innovative-focused ethos. The announcement of the deal itself triggered employee uncertainty and turnover at VMware, with several senior executives departing in 2022.

There is a risk that key engineering talent or leaders could leave due to concerns over Broadcom's management approach or reduced autonomy. Additionally, Broadcom's CEO has signaled a stricter in-office work policy, which has reportedly caused anxiety among VMware staff used to more flexible arrangements. Successful retention and motivation of VMware's human capital will be crucial to achieving the deal's long-term goals.

Customer Retention and Market Response:

VMware's customers have voiced concerns about the acquisition. Broadcom has a reputation for significantly increasing the prices of acquired software (as seen with CA and Symantec), which can push customers to seek alternatives. If post-acquisition VMware raises licensing or support costs, some clients might migrate to competing platforms (such as Microsoft or open-source virtualization solutions). Competitors like Nutanix have already reported increased interest from VMware, customers wary of Broadcom's ownership.

Broadcom must balance its drive for higher margins with the need to keep VMware's customer base satisfied and engaged. Any perception of deteriorating service quality or aggressive sales tactics could erode VMware's long-cultivated goodwill in the enterprise community.

Synergy Execution Risk:

The deal's financial success depends heavily on Broadcom's ability to realize the projected \$8+ billion in EBITDA synergies. There is a risk that cost cuts could go too far, potentially undermining VMware's product development or customer support. If Broadcom cannot execute the integration smoothly, the expected efficiency gains might be lower or slower to materialize. Conversely, integrating into a large software business also poses operational complexity, and unforeseen issues (such as systems integration problems or culture clashes) could add costs. Broadcom is effectively making a big bet that it can dramatically improve VMware's margins without sacrificing revenue — a balance that must be carefully managed to avoid value destruction.

Macroeconomic and Financial Risks:

The acquisition added roughly \$30 billion in debt to Broadcom's balance sheet, which increases the company's financial leverage. Although manageable, this higher debt comes with exposure to interest rate risk and could constrain Broadcom's financial flexibility in a downturn. If global IT

spending were to decline or if VMware's business faced an unexpected downturn, Broadcom would still have to service the large debt load.

Furthermore, integration is occurring amid broader economic uncertainty (inflation, currency fluctuations affecting international sales, etc.), which could complicate performance post-merger. Broadcom will need to ensure it maintains strong cash flows to meet its de-leveraging targets and avoid any strain on its credit profile.

8. Appendix

DCF Valuation Model – Key Assumptions

Parameter	Assumption
Revenue Growth Rate 2025	–2.61%
Revenue Growth Rate 2026	5.66%
Revenue Growth Rate 2027	5.14%
Revenue Growth Rate 2028	5.14%
Revenue Growth Rate 2029	5.14%
EBIT Margin	19.7%
Depreciation (% of Revenue)	3.5%
Capital Expenditures (% of Revenue)	4.7%
Change in Net Working Capital (% of Revenue)	1.2%
Tax Rate	21%
WACC (Discount Rate)	9.37%
Terminal Growth Rate (beyond 2029)	2.0%

DCF Output (Standalone VMware)

Item	Value (USD)
Present Value of FCF (2025–2029)	\$7.6 billion
Present Value of Terminal Value (2029)	\$19.5 billion
Enterprise Value (EV)	\$27.1 billion
Less: Net Debt (assumed)	\$8.0 billion
Equity Value	\$19.1 billion
Implied VMware Value per Share	~\$45

Notes:

The DCF was conducted in USD, with cash flows discounted to the end of 2024. The terminal value was calculated using a Gordon Growth formula at 2% perpetual growth. This analysis suggests that VMware's standalone value is well below the acquisition price – implying that Broadcom is paying a premium over intrinsic value, likely justified by expected synergies (which are not included in the standalone DCF).

In a scenario where VMware's margins and cash flows improve dramatically (as Broadcom plans), the intrinsic value would increase accordingly (for example, a lower WACC or higher long-term growth rate would substantially raise the DCF valuation, as the sensitivity heatmap illustrates).

Key Timeline

Date	Event	Notes
May 26, 2022	Broadcom announces acquisition of VMware for ~\$61B (cash + stock)	Also assumes ~\$8B of VMware's net debt
Mid-2022 to Early 2023	Regulatory reviews by FTC (US), EC (EU), CMA (UK), SAMR (China), etc.	Moves into standard and Phase II investigations
July 12, 2023	EU Commission conditionally approves the acquisition	Broadcom must keep hardware interfaces open
August 2023	UK CMA conditionally approves the acquisition	Similar obligations on hardware compatibility
November 21, 2023	Chinese SAMR grants approval	No public structural remedies required
November 22, 2023	Deal officially closes; VMware delisted from NYSE, becomes Broadcom subsidiary	Major milestone achieved
Early 2024	Broadcom restructures VMware: streamlines product lines, shifts to subscription model	Launches vSphere Foundation and VMware Cloud Foundation
2024	Broadcom issues \$5B bonds to refinance part of bridge loans; strong free cash flow generation	Some Term Loans remain
FY2025	EPS accretion expected at +7–10%; strong FCF contributions; gradual deleveraging	Execution of synergies and customer retention under watch

Post-Acquisition KPI Tracking Table

Metric	Target/Projection	Current Progress (FY2024)	Notes
EPS Accretion (FY2024)	+2–3%	Achieved and exceeded	Strong cost synergy realization
EPS Accretion (FY2025)	+7–10%	Expected	Watch for sustained FCF gains
Free Cash Flow Growth	~\$8B contribution annually	VMware adding robust FCF	AI infrastructure investments ongoing
VMware Operating Margin	Raise to >70%	Achieved	Revenue slightly down but margin significantly up
Deleveraging (Debt Reduction)	Medium-term goal	Ongoing, partial bond refinancing in 2024	Further monitoring required
Customer Retention Risk	Limit attrition to 5–10%	Some SMB churn, large enterprise retention stable	Ongoing area of concern
AI Infrastructure Expansion	Broaden NIC + VMware multi-cloud integration	In progress	Needs further productization

