

Dell Sells RSA

Can Hardware-Oriented Vendors Succeed with Security Software and Services?



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THE VIEW INSIDE

Below are our thoughts and notes on Dell Technologies' agreed sale of RSA Security to a consortium led by private equity firm Symphony Technology Group (STG) for \$2.075 billion. (See announcement [here](#).)

In the current economic environment, large companies, particularly those in technology industries, are tasked with continually increasing revenue and/or profits. In the case of vendors that primarily sell electronic hardware, that often means expanding their offerings in software and services, where they can leverage their existing customer bases and distribution channels to generate additional sales per account. Cybersecurity software and services companies have been particularly ripe for acquisition by hardware vendors, as security is often best rooted in hardware, and hardware vendors can be uniquely positioned to ensure compatibility and efficacy of the security when used in conjunction with their own components.

Way back in 2006, storage hardware provider EMC Corporation acquired RSA Security, which is one of the foundational companies in the field of cybersecurity. RSA's three founders—Ron Rivest, Adi Shamir and Leonard Adleman—had developed the RSA algorithm for asymmetric (public-key, private-key) cryptography, upon which much of Internet communications security has historically relied. (In recent years, elliptic curve cryptography, or ECC, has emerged as a viable competitor to the RSA algorithm, primarily due to ECC's much smaller encryption key sizes.) RSA Security also offers [hardware security tokens](#) for multifactor authentication, as well as a range of cybersecurity software and services, targeted mostly at enterprise and public sector computing systems. Although Dell hasn't broken out RSA revenue in its financial reporting, VDC believes that the hardware security token portion of RSA's business is likely in decline as many organizations have shifted multifactor authentication functionality to mobile phone apps, such as Google Authenticator, Authy, and Symantec VIP.

When Dell finalized its acquisition of EMC in 2016 for a whopping \$67 billion, it was (and still is) one of the largest tech deals in history. The main impetus for that acquisition was EMC's controlling stake in VMware, a leading provider of cloud computing and virtualization software and services. RSA Security came along with the purchase, seemingly a minor consideration. When Dell had originally announced its agreement to acquire EMC back on October 12, 2015, that same day [speculation emerged that Dell might spin off RSA](#). But Dell gave RSA a years-long test run before deciding the shoe didn't quite fit.



It turns out that not all security solutions are a good fit for PC, server, and storage hardware customers. And that cybersecurity has become an extremely competitive field. And that hardware vendors don't necessarily know the best ways to develop new cybersecurity solutions to remain at the forefront of the field. And that acquiring a company for \$67 billion incurs a lot of debt that eventually must be paid down. (As of the Dell's 2020 fiscal Q3, ended November 1, 2019, Dell had more than \$52 billion in long term and short term debt.)

Besides the acquisition of RSA with EMC, in 2010 Dell had acquired identity and access management provider Quest Software, and in 2012 had acquired SonicWall, a provider of network firewall appliances and related cybersecurity services. But Dell sold off the Dell Software group, principally comprised of Quest and SonicWall, in 2016. If anything, SonicWall would have seemed like a good fit for Dell's product lines and skill sets. However, Dell has not divested itself of its Secureworks subsidiary, acquired in 2011, which primarily offers cyber threat detection and response services, and appears to be doing well with \$518 million revenue in its fiscal 2019 and 10.9% year-over-year growth. Perhaps if Dell gets in a future pinch on paying down its debt, Secureworks could be next to go.

We won't detail all the Dell/VMware financial machinations that have occurred since Dell's acquisition of EMC, but suffice to say that VMware remains a separate entity with Dell as the majority shareholder. We will note, however, that in 2019 VMware acquired endpoint security firm Carbon Black for \$2.1 billion. We also note somewhat ironically that EMC had paid \$2.1 billion for RSA in 2006, nearly the same price for which Dell is selling RSA 14 years later. We're not sure why \$2.1 billion appears to be something of a magic number here, but factoring in the time value of money, the newly agreed RSA sale price would rightly be considered a loss of value for Dell. On the other hand, when speculation that Dell might sell off RSA re-emerged in November 2019, a [Bloomberg news article](#) cited "people familiar with the matter" that Dell "hopes it [RSA] could fetch at least \$1 billion." From that point of view, fetching nearly \$2.1 billion indeed seems like a magic number.

Other Examples of Hardware-Oriented Vendors Acquiring Cybersecurity Firms

In 2011, semiconductor maker Intel acquired McAfee, one of the pioneering cybersecurity firms (founded in 1987), for \$7.68 billion. Intel set aside the McAfee company name to form the Intel Security group, combining product lines still branded as McAfee with Intel's internal security assets. Intel apparently struggled with how to best align security developments, not to mention sales efforts, at the chip level with those at the application level. In 2017, Intel spun off the McAfee assets as a separate entity and sold the majority of its stake in that company to private equity firm TPG Capital for \$3.1 billion in cash plus an equity investment in McAfee of \$1.1 billion by TPG.

Also in 2011, chipmaker and silicon intellectual property vendor Rambus acquired Cryptography Research, a developer and licensor of semiconductor security technologies (not security software and services), for a combination of cash and stock valued at \$342.5 million. In this case, Rambus was best known for its memory chips, both firms were operating at the semiconductor level, and their offerings meshed well. Today, Cryptography Research remains a division of Rambus.

Of course, there are cases where security-specific hardware vendors expanded their offerings through acquisitions as well as internal product developments, such that security software and services have overtaken hardware sales. A prime example of this is Palo Alto Networks, which began in 2005 as a firewall appliance hardware maker. In its 2019 fiscal year (ended July 31, 2019), 62.2% of Palo Alto's revenue was from subscription software and services, including support contracts. In addition, an undisclosed portion of the company's remaining firewall "product" revenues were from virtualized firewalls (effectively software for cloud deployment) rather than physical firewalls. Over the past year Palo Alto has made multiple security software and services acquisitions, including: Aporeto, for cloud security; Demisto, for security orchestration; PureSec, for serverless security; Twistlock, for container security; and ZingBox, for IoT security. These acquisitions all fit well within Palo Alto's existing scope, and represent further migration of the company from a hardware business to software and services.

Broadcom & Symantec?

All of which leaves us with a big open question regarding chipmaker Broadcom's somewhat surprising November 2019 acquisition of Symantec's enterprise security business for \$10.7 billion cash, plus the assumption of \$4.5 billion of existing Symantec debt, which Broadcom financed with the help of \$12 billion in new loans. In 2017, Broadcom had acquired networking equipment maker Brocade Communications Systems for \$5.5 billion plus \$0.4 billion in Brocade debt. At the time of the acquisition, Broadcom announced that it would retain Brocade's storage area networking business, and sell off that company's IP networking business. In 2018, Broadcom acquired mainframe software vendor CA Technologies for \$18.9 billion, and shortly thereafter sold off CA's Veracode application security testing platform for \$950 million. As of Broadcom's fiscal year ended November 3, 2019, the company had \$32.8 billion in debt.



Broadcom is best known as a supplier of wireless chips and related components for Wi-Fi and Bluetooth, but it also offers a wide range of electronic hardware for wired networking and datacenter infrastructure, as well as enterprise software for software development and business management. Symantec's security solutions are now slotted in the enterprise software segment. (If Broadcom had known in 2018 that it was likely to buy Symantec in late 2019, we suspect that it might not have sold off Veracode. But we digress...) Given that neither Dell nor Intel sustained long term businesses in enterprise security software and services, we're skeptical that Broadcom can succeed without security constituting a greater portion of its overall business. Broadcom now has the opportunity, but it will be an uphill battle. And the devil is in the debt.

(See our prior VDC View on [IBM's acquisition of Red Hat](#).)

About The Authors



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Steve Hoffenberg is a market research professional who brings his expertise to Embedded Software and The Internet of Things. He has more than two decades of experience in market research and product management for technology products and services. At VDC, Steve covers industry trends, market sizing, marketing strategy, and competitive analysis, for a variety of IoT-related technologies, including embedded systems, security, wireless communications, cloud platforms, and data analytics. Prior to joining VDC, he spent 10 years as Director of Consumer Imaging and Consumer Electronics Research at the market research firm Lyra Research. Previously, he worked in product management for electronic design companies that developed and licensed embedded digital imaging and audio products. Steve holds an MS degree from the Rochester Institute of Technology and a BA degree from the University of Vermont. He is also a Certified Information Systems Security Professional (CISSP).

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