

# **PUND-IT RESEARCH**

## **Breaking News Review**

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# Dell Plans EqualLogic Acquisition

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Dell announced that it planned to acquire EqualLogic, which it described as “a leading provider of high-performance iSCSI storage area network (SAN) solutions uniquely optimized for virtualization,” for approximately \$1.4 billion in cash. The acquisition has been approved by the board of directors of each company and is subject to regulatory approvals and customary closing conditions. After completion of the transaction, Dell said it plans to grow EqualLogic’s successful channel-partner programs with current and future EqualLogic-branded products, and will incorporate the company’s technology into future generations of its Dell PowerVault storage line.

The Dell/EqualLogic deal is very interesting for a number of reasons. Historically, EqualLogic qualifies as Dell’s largest acquisition. The amount of money involved, some \$1.4 billion, is not chump change by any measure, particularly for a company that reported revenues of \$68.1 million in 2006 (and a net loss of \$500,000) and revenues of \$91 million (and a \$1.9 million net loss) during the first nine months of 2007. In addition, Dell is primarily known as a server company and yet it is buying what many would consider a niche storage company. As such, the deal seems somewhat at odds with Dell’s ongoing partnership with storage leader EMC.

Concerning the first issue, Dell is buying into an admittedly hot market for Internet-based SCSI storage area networks (iSCSI SAN), which allows storage traffic to be transmitted over familiar existing IP networks. That can lead to lower costs, easier maintenance, and simpler management of storage networks than is possible with Fibre Channel (FC) SANs that need to be specially deployed and managed. That cost-effectiveness and familiarity especially appeals to small and medium businesses, which just happens to be a sweet spot for Dell’s server business.

Enterprises are not excluded from the iSCSI party, but existing FC customers are not likely to switch over technologies entirely. Instead, iSCSI currently plays a peripheral role for larger companies that will grow in importance over time. However, though the market for iSCSI is expanding rapidly, it is hardly a gold mine. EqualLogic claims to have some 15% of its sector, but simple math suggests that iSCSI will likely drive total revenues far south of \$1 billion during 2007, a small fraction of the revenues generated by business storage. The iSCSI market is forecasted to do very well over the next few years, so Dell’s entry into the action seems a wise move. But EqualLogic’s \$1.4 billion price tag suggests that more than one suitor may have been vying for the company’s hand.

So what is Dell getting for its investment? EqualLogic is one of the leaders in the iSCSI SAN marketplace whose PS (Peer Storage) Series products have been well-recognized and well-received. Technically, the product has strong sophisticated capabilities for pooling and tiering of stored data. These include the ability to assign a different service level to each application, the ability to mix different type of RAID groups in the same array, and performance load balancing. EqualLogic’s PS can also handle virtual segmentation by, say, different departments using the same SAN disk array.

The key to remember here is that despite all this — and other — software and hardware technical sophistication, EqualLogic also delivers improved ease of use, not greater complexity. In addition, the company’s solutions map well against Dell’s traditional strengths among SMBs and its strategic focus on virtualization (EqualLogic was the first iSCSI vendor to be certified by VMware). On top of its strong product set, EqualLogic brings along an installed dowry of over 3000 customers, more than 400 technical, business, and channel partners, and a notable management team. All in all, while Dell may have paid a premium it is acquiring a strong young leader in what may be the storage arena’s premiere emerging market.

That is not to say that Dell will not face a number of challenges related to this acquisition. The first comes in how Dell plans to integrate EqualLogic’s products within its own PowerVault line of stor-

age. Since Dell is not noted for its storage leadership, the purchase validates EqualLogic's R&D and marketplace vision. That means that EqualLogic's technology should be thoroughly absorbed into Dell's PowerVault storage line or the deal has been for naught. The two companies collectively have the expertise to achieve this integration, but given the still nascent nature of the iSCSI market exactly how existing Dell customers will transition to EqualLogic-based PowerVault products is uncertain at this time.

The second challenge is how well Dell manages the independence of EqualLogic. If this acquisition were strictly a technology deal, then Dell might simply absorb the assets of EqualLogic, move the employees it wishes to retain to Texas, and wish the rest a happy *vaya con dios*. However, EqualLogic is an *independent* storage company in the sense that it sells storage not only to companies that use Dell servers, but also to HP, IBM, and Sun server customers. In this sense, Dell is faced with the same question that Sun faced after the acquisition of StorageTek; as a server company, how do I successfully manage a storage company that makes many or even most of its sales to my competitors? This conundrum includes how Dell will manage the channel that has been crucial to EqualLogic's success. Given Dell's track record with the channel, this may be a considerable issue.

The third challenge is how the deal might affect Dell's relationship with EMC. Although all partnerships have their ups and downs, the Dell-EMC collaboration seems to be a positive one for both companies. Dell has offered EMC a reliable conduit to SMB customers, and EMC has provided Dell a wide range of world class storage solutions, including iSCSI arrays. Even though the overlap is not one-to-one, EqualLogic's PS series does indeed compete with EMC's CX and AX series, meaning that Dell will have to decide carefully when and where EqualLogic substitutes for or complements EMC.

There is a danger here for both companies. As an ally, EMC brings a lot to the table including deep pockets and a great deal of savvy in ongoing product and market development. As a competitor, Dell has a formidable history of doing what it needs to win. To forestall any potential conflicts, Dell may say all the right things about its EqualLogic acquisition, but actions speak louder and more clearly than words ever will. Though we expect the partnership between Dell and EMC to continue, a marriage of convenience rather than one of equal commitment would likely be a waste for both companies.

All in all, while EqualLogic offers Dell a host of notable, possibly unique opportunities, the company has a lot to sort out. Paying the \$1.4 billion bill is simple enough, but getting full value for the money spent and ensuring that the deal does not injure or confuse valuable partners and customers is likely to be far more complex.

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***Pund-IT emphasizes understanding technology and product evolution and interpreting the effects these changes will have on business customers and the greater IT marketplace.***

***About the Mesabi Group***

***The Mesabi Group ([www.mesabigroup.com](http://www.mesabigroup.com)) helps organizations make their complex storage, storage management, and interrelated IT infrastructure decisions easier by making the choices simpler and clearer to understand.***