

EMC Acquires Legato and Leapfrogs Toward Information Lifecycle Management

Analyst: Michael Fisch

The Splash

EMC recently made big waves in the industry by announcing an agreement to acquire Legato. **Though the full impact of this event will take time to unfold, it certainly will be significant for EMC, Legato, and their respective enterprise customers.**

First, the facts: EMC will pay about \$1.3 billion in stock for Legato. Legato is a software company that offers variety of solutions for Information Lifecycle Management, including backup/restore, hierarchical storage management (HSM), archiving, replication, application monitoring, and e-mail and content management. Its revenues were \$262 million in 2002, and it has 31,000 customers, 500 customer-facing staff, and over 400 partners. Legato's channel mix is 75% indirect and 25% direct. The transaction is expected to close in the fourth quarter of 2003.

The Rationale

EMC stands to gain from Legato's revenue stream, customer base, distribution channel, and software technologies. Legato is on track to top \$300 million in revenue this year (profitably), which adds to EMC's income statement and contributes to its internal goal of raising software to 30% of revenue by end-of-year 2004. Legato brings many net-new customers to the table, giving EMC an open door to sell its broader line of storage solutions. (As a rule of thumb, it is always much easier to sell to existing customers than to acquire new ones.) Legato's channel strength also complements EMC's predominantly direct sales mix and will accelerate EMC's campaign to reach the small- and medium-sized enterprises.

All well and good, **but the biggest benefit is Legato's software technology, which helps fill out EMC's portfolio of Information Lifecycle Management (ILM) solutions.** Legato's software nicely complements EMC in the areas of application health and performance monitoring, server-based replication, media management, e-mail and content management, HSM, and archiving. The only significant redundancy is backup/restore, with EMC EDM and Legato NetWorker. However, EMC plans to eventually merge the best of EDM into NetWorker and create a single solution. EDM customers will be able to upgrade to an equivalent product.

So, EMC is clearly betting on ILM, as evidenced by the cool \$1.3 billion it paid for Legato. Why is EMC moving so quickly in that direction, and how might it benefit enterprise customers? Answering these questions requires a closer look at ILM itself.

Information Lifecycle Management

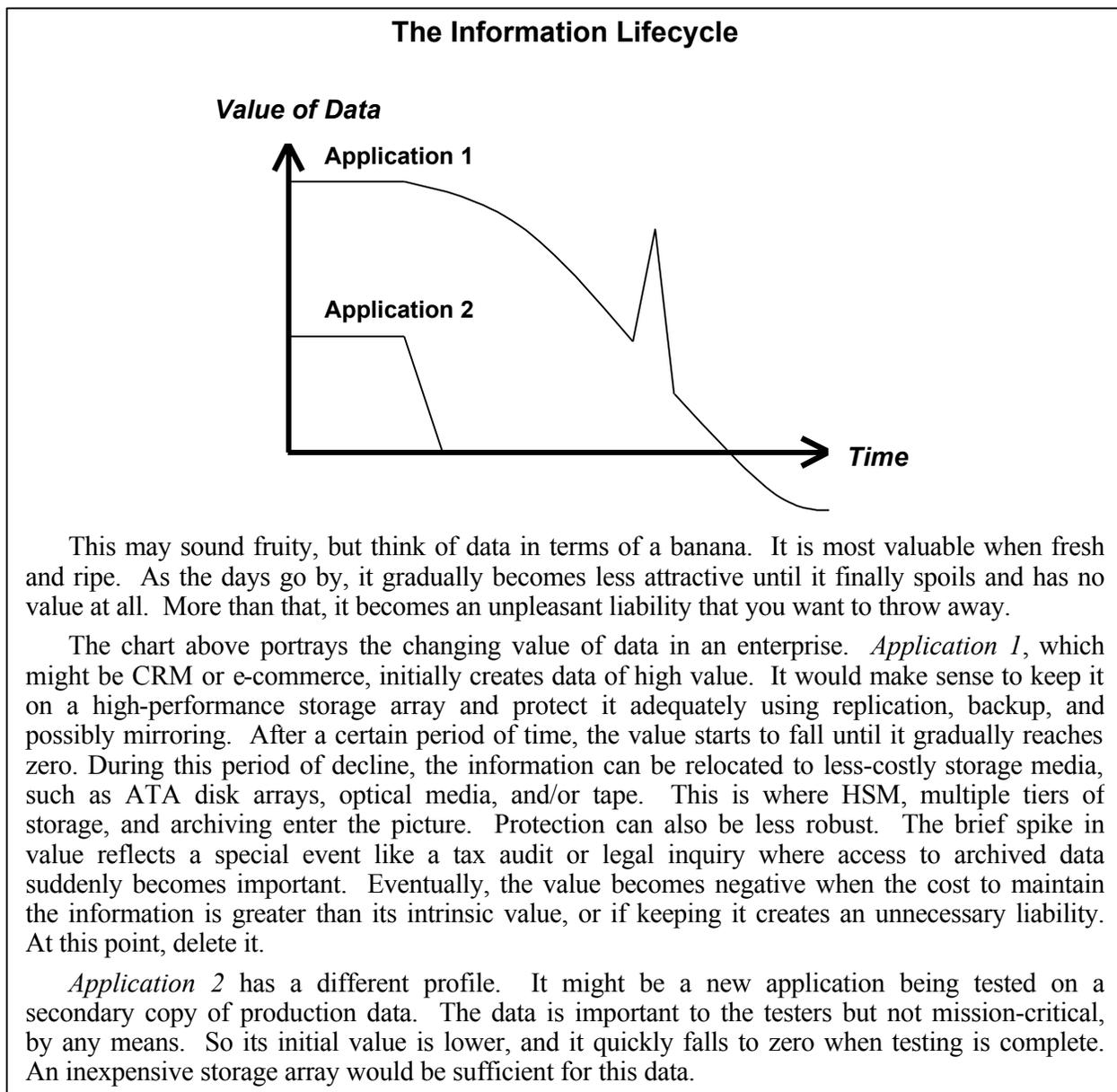
ILM is a concept for data and storage management that seeks to take advantage of a simple fact: the value of data changes. Not all data is created equal, nor does its worth remain constant over time. Its initial value depends on the application or user that created it. As times elapses, the value can naturally erode, though unexpected events, like a tax audit, can suddenly increase it again.

(See "The Information Lifecycle" in the box below).

Due to historical technology limitations and a lack of awareness, the typical enterprise storage infrastructure today does not recognize the changing value of data. An enterprise may assume that the value of all data is high and overspend on storing and protecting it, or it might assume the value is low, invest too little, and suffer performance bottlenecks or potentially-crippling data loss. Even worse, it might do both simultaneously. ILM seeks to navigate between these two extremes by treating data uniquely based on its relative value and dynamically altering the

level of protection and accessibility through its lifecycle. **The result is a quality of service and storage TCO that is just right.**

Though the concept is straightforward, it is difficult to implement fully in the heterogeneous, networked, distributed computing environments found in enterprises. **ILM involves data replication, migration, volume management/virtualization, archiving, and often the ability to understand data within its file system and/or application context.** Done properly, it involves coordinating these functions across many different computing, network, and storage platforms. This is a complex problem to solve, and no vendor yet



has the perfect solution.

For its part, EMC has many pieces of the ILM puzzle, and the Legato acquisition just gave it a handful more. EMC's next step is to integrate them into a cohesive whole while preserving modularity for customers who prefer to pick and choose their components. This will require tremendous development time and resources, which suggests why only larger vendors with enough scale and focus could pull off such an effort. **It is an issue of execution for EMC at this point, and its stated intention is to deliver a complete, integrated ILM offering that is policy-driven, business-centric, heterogeneous, and application-independent.**

The Customer Impact

The Legato acquisition will have a short- and long-term impact on enterprise customers. First, those who own or are inclined to buy Legato products can rest assured about their long-term viability. The company has been in a turnaround situation in recent years, and though it has made great progress, there was always a seed of doubt about its longevity. EMC's embrace should dispel that.

Furthermore, all enterprises struggle with the cost and complexity of storage and data management, and ILM conceivably addresses a large part of it. Assuming EMC is able to pull off the integration effort ahead of it, a comprehensive ILM solution will be attractive to many enterprises. Many prefer to

buy from a single source and do not want the hassle of piecing together and testing a full solution. Moreover, the nature of the problem that ILM solves lends itself to a broader solution. So, if EMC delivers, a lot of enterprises stand to benefit. The option to buy in a modular fashion will also be important, allowing customers to upgrade, if budgets allow and needs dictate.

Conclusion

EMC's acquisition of Legato is a win-win-win situation (yes, three wins). It is a win for EMC because it significantly rounds out its portfolio for Information Lifecycle Management, in addition to receiving customers, channels, and a revenue stream. It is a win for Legato whose turnaround effort led by David Wright helped it receive a decent acquisition price for its shareholders. Finally, it is a win for enterprise customers who benefit from the stability and continued development EMC brings to Legato's product line. **In the long run, enterprises can also benefit from a more complete, integrated ILM solution that EMC will bring to market – one that takes a cradle-to-grave view of data, leverages value differentials, and helps minimize storage total cost of ownership.** That is what it's all about!



About The Clipper Group, Inc.

The Clipper Group, Inc., is an independent consulting firm specializing in acquisition decisions and strategic advice regarding complex, enterprise-class information technologies. Our team of industry professionals averages more than 25 years of real-world experience. A team of staff consultants augments our capabilities, with significant experience across a broad spectrum of applications and environments.

- **The Clipper Group can be reached at 781-235-0085 and found on the web at www.clipper.com.**

About the Author

Michael Fisch is Director of Storage and Networking for The Clipper Group. He brings over seven years of experience in the computer industry working in sales, market analysis and positioning, and engineering. Mr. Fisch worked at EMC Corporation as a marketing program manager focused on service providers and as a competitive market analyst. Before that, he worked in international channel development, manufacturing, and technical support at Extended Systems, Inc. Mr. Fisch earned an MBA from Babson College and a Bachelor's degree in electrical engineering from the University of Idaho.

- **Reach Michael Fisch via e-mail at Mike.Fisch@clipper.com or at 781-235-0085 Ext. 25. (Please dial "1-25" when you hear the automated attendant.)**

Regarding Trademarks and Service Marks

The Clipper Group Navigator, The Clipper Group Explorer, The Clipper Group Observer, The Clipper Group Captain's Log, and "*clipper.com*" are trademarks of The Clipper Group, Inc., and the clipper ship drawings, "*Navigating Information Technology Horizons*", and "*teraproductivity*" are service marks of The Clipper Group, Inc. The Clipper Group, Inc., reserves all rights regarding its trademarks and service marks. All other trademarks, etc., belong to their respective owners.

Disclosure

Officers and/or employees of The Clipper Group may own as individuals, directly or indirectly, shares in one or more companies discussed in this bulletin. Company policy prohibits any officer or employee from holding more than one percent of the outstanding shares of any company covered by The Clipper Group. The Clipper Group, Inc., has no such equity holdings.

Regarding the Information in this Issue

The Clipper Group believes the information included in this report to be accurate. Data has been received from a variety of sources, which we believe to be reliable, including manufacturers, distributors, or users of the products discussed herein. The Clipper Group, Inc., cannot be held responsible for any consequential damages resulting from the application of information or opinions contained in this report.