



J.Gold Associates LLC, 6 Valentine Road, Northborough, MA 01532, USA
www.jgoldassociates.com +1-508-393-5294

Intel Acquires a Security Blanket

Intel announced it is acquiring security firm McAfee for approximately \$7.7B. While we think the price is high and Intel may have paid too much for the company, we nevertheless believe this is a good acquisition for Intel. It will allow them to significantly enhance current security offerings and propel Intel beyond the competition in both its traditional PC market and the fast emerging growth market of mobile smart devices.

Intel is ramping up quickly in the security realm, as it correctly recognizes that devices are increasingly complex and connected and increasingly unsafe and insecure. Intel wants to change this, and has been making some moves in this direction. Although Intel does offer some security software assets primarily for enterprise users (e.g., vPro, AMT), much of what they are currently providing is at the lower device levels – typically below the OS and into the chip firmware, drivers and/or BIOS. McAfee has a number of technologies that can help expand this effort, particularly in secure access and data loss prevention. McAfee also has complimentary technology to Intel's vPro and AMT technology and a full deployment and management suite (Orchestrator) that can help Intel expand the market not only for its currently targeted business users, but also ultimately for consumers and SMB through cloud-based services. In fact Intel has struggled to get vPro more widely adopted within the business community, including SMB, and McAfee capabilities could be useful in breaking through the adoption barriers of cost and complexity and make vPro, for which Intel gains significant revenue per system sold, an important profit center. If McAfee was able to substantially increase the uptake of vPro, this alone could be a justification for its acquisition. But we believe there is much more it can offer Intel.

Although known primarily as an anti-virus company, McAfee has expanded over the years to offer a wide range of security and protection systems that include device protection, data loss prevention, secure access and network protection. Indeed, McAfee has recently been adding to its capability in the rapidly growing smart phone market by acquiring tenCube to provide LoJack-like services to both consumers and business users of mobile devices, and Trust Digital to provide needed security enhancements for inherently insecure smart devices (i.e., iPhone, Android). And its Orchestrator product line is used by many enterprise customers to fully manage and automate security for a growing array of end user selected "user liable" devices which organizations need to enable onto the corporate network despite potentially insufficient security capabilities. And although McAfee is smaller than its primary competitor (Symantec) it has recently moved ahead technologically by making a number of strong moves into the mobile device market, which Symantec has yet to fully embrace.

While many still view Intel as a PC company, and although the majority of its revenues currently come from PCs, that is too narrow a focus for the future of computing. Windows is important but will be a decreasing share of Intel's market long term. Atom and alternative OS-powered devices will likely eclipse the volume of PCs within the next 3-4 years.

Microsoft offers a security product primarily targeted at the end user/consumer protection of Windows based systems, and to that extent it is a competitor of McAfee. With this acquisition, Intel runs the risk of alienating Microsoft, which is its largest platform enabler. But there are increasingly diverse installations of OSes (i.e., Android, Symbian, MeeGO, Chrome, Linux, etc.) on a variety of device types (e.g., smart phones, tablets, personal appliances). And these are currently coming to market with staggering volumes, potentially dwarfing Windows-powered PCs by 5 to 10 times the PC volumes within the next few years. Indeed, Intel has expended significant resources to make MeeGo a competitive offering in the smart device market and needs to secure the platform to be more compelling. McAfee, concentrating on MeeGo, could provide Intel with a competitive edge against the other OSes. But Intel has to enable enhanced security protection for all of the various OS platforms to fully expand its chip market. This is especially critical for Atom which is directly targeted at the device marketplace.

McAfee was expensive for Intel to acquire, but it is profitable so Intel is acquiring a new profit center. The revenues and profitability are good for Intel's bottom line, but what Intel also gets is the ability to "tune" the security capabilities of the McAfee products to run faster/better on Intel platforms and to provide chip-level optimization "hooks", giving Intel the ability to couple optimized SW with HW capabilities to make things work much better with burdened system resources than currently available sluggish security overlays. And importantly, this includes optimization for Atom devices, where Intel could offer compelling advantage in the mobile market. Security is one of those areas that could give Intel a key advantage over the competition (e.g., ARM) when it comes to more complex and Internet connected (and hence inherently at-risk) devices, like tablets and higher end smart phone devices. But security with high levels of performance would be even better.

Bottom line: With this acquisition, Intel is expanding its level of security enablement for business users, and ultimately for consumers as well, and across the entire spectrum of devices including mobile. By building more security features obtained from McAfee back into the lower level systems functions, all users will ultimately benefit from more secure and manageable systems across many operating systems and device types. This will give Intel a competitive advantage as security becomes a key decision criteria in creating new devices and OSes.

Jack Gold is the founder and principal analyst at J.Gold Associates, an information technology analyst firm based in Northborough, Mass., covering the many aspects of business and consumer computing and emerging technologies.

For more in-depth comments or analysis on this or other subjects, feel free to contact us.

Jack E. Gold

jack_gold@jgoldassociates.com
www.jgoldassociates.com
508-393-5294

Copyright 2010 J.Gold Associates, LLC. All right reserved.