

DELL INC.
Dell to Acquire Compellent
Conference Call Transcript
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Operator: Good morning, and welcome to the Dell Inc. and Compellent conference call. I'd like to inform all participants, this call is being recorded at the request of Dell. This broadcast is the copyrighted property of Dell Incorporated. Any rebroadcast of this information in whole or part without the prior written permission of Dell Inc. is prohibited. As a reminder, Dell is also simulcasting this presentation with slides at www.dell.com/investor. Later, we will conduct a question-and-answer session. If you have a question, simply press star then the number one on your telephone keypad at any time during the presentation.

I'd like to turn the call over to Rob Williams, Vice President of Investor Relations. Mr. Williams, you may begin.

Robert Williams: Thank you, Angela. Good morning, and thanks for joining us. We're pleased to announce that Dell and Compellent have reached a definitive agreement for Dell to acquire Compellent. With me today are Brad Anderson, Senior Vice President of Dell's Enterprise Product Group; Dave Johnson, Senior Vice President Dell Corporate Strategy; and Phil Soran, Chairman and CEO of Compellent.

We have posted our Web deck on Dell.com. I encourage you to review these materials for additional perspective. Additional information about the transaction, the participants, and the risks associated with this transaction will be included in the SEC filings of Dell and Compellent.

Turning to slide two. I'd like to remind you that all statements made during this call that relate to future results and events are forward-looking statements that are based on our current expectations. Actual results and events could differ materially from those projected in the forward-looking statements because of a number of risks and uncertainties which are discussed in our annual and quarterly SEC filings, and in the cautionary statement contained in

our press release and on our Web site. We assume no obligation to update our forward-looking statements.

In conjunction with the proposed transaction, Compellent will file a proxy statement with the SEC. Additionally, Compellent and Dell will file other relevant materials in connection with the proposed acquisition. Information concerning the interests of those persons who may be deemed to be participants in the solicitation of the proxies from Compellent's stockholders will be set forth in the proxy statement. Investors and stockholders of Compellent are advised to read the proxy statement, and any other relevant documents filed with the SEC when they become available, because they will contain important information about the merger and parties involved.

Now, I'd like to turn it over to Dave.

Dave Johnson: Thank you, Rob, and good morning, everyone.

As you know data creation is exploding. Our customers are struggling to store and manage their content. Compellent is a storage solution which helps customers efficiently and effectively store and manage their data. The Compellent storage solution is a modular SAN platform. It compliments Dell's earlier acquisitions of EqualLogic, an iSCSI storage platform, Exanet, a strong cluster file system offering, and Ocarina, a set of data deduplication technologies.

Brad and Phil will talk more about this shortly, so let me focus for a moment on the transaction itself.

We have reached a definitive agreement for Dell to acquire Compellent at \$27.75 a share. This transaction represents an equity value of almost \$960 million, and when netted for its cash position, an enterprise value about \$820 million. The boards of both companies have unanimously approved the transaction.

We have reached retention agreements with the Compellent senior leadership team, and the Compellent team members who report into Dell's enterprise product group. In addition, Dell has entered into a resale agreement with Compellent to extend our storage portfolio. We intend to fund this transaction

with cash, and pending regulatory approval, we anticipate the transaction will close early in 2011.

And as you know closing is subject to Compellent's stockholder's approval, and other customary closing conditions. We anticipate this transaction will be accretive to Dell's non-GAAP earnings in 2012.

With that, let me turn it over to Brad.

Brad Anderson: Thank you, Dave, and good morning.

If you turn to slide four, Compellent is a provider of virtualized storage solutions with automated tiered storage for the enterprise and cloud computing environments. As we have discussed with you many times, Dell is focused on building out its enterprise business. We continue to make significant organic investments in go-to-market and R&D. We have also invested, as Dave outlined, from an inorganic standpoint in growing our storage platform as well as our services. Today's announcement is another step in this direction.

Compellent compliments Dell's enterprise class storage portfolio, and is consistent with our strategies to develop solutions for the data storage market.

Compellent brings \$125 million in revenue from last year, with gross margin performance in line with higher margin storage offerings we have added to our business over the last three years. Compellent's revenue is built on a sound value proposition and solid customer relationships. Currently they have over 2,500 current customers, and a channel sales model. We believe the combination of Compellent's modular SAN storage with Dell's customer reach represents an opportunity to grow Compellent faster and across more verticals.

Turning to slide five. Last year, customers spent about \$45 billion to store data, and then they spent almost an equal amount to manage data. Going forward, customers will spend more to manage their data than to store data.

In the storage industry, there are too many point solutions. There are primary solutions, secondary, backup and archival. There is iSCSI and Fibre, there is block and file. Too many of these solutions are all about technologies, and not about addressing customer requirements.

Customers want to buy based on their requirement, these are things like capacity, performance, latency and cost points. And they want solutions that are not just about how you store the data, but how you manage the data. Customers want to be able to have storage on primary and easily move it to secondary, then back it up, and at some point, archive the data. They want to be able to dedup the data early in its life, and manage it throughout its life rather than just before they archive it. You can't accomplish this when you have all these point solutions that are incompatible with each other, you can't really have data mobility.

At Dell, we aren't protecting any of these legacy set of platforms, so we really feel that we are in a great position and are making investments that allow to deliver unified storage and deliver true data mobility. This is a pain point that we feel that we can address with our open, capable and affordable solutions, and we think we are very well positioned. We believe Compellent is a strong addition to our portfolio and adds to our broad coverage across the storage landscape.

Compellent can provide our customers additional mid- and high-end network storage solutions that removes complexity and further reduces our customers' costs. Compellent's Fluid Data architecture automates data movement and management to adapt continuously to change. Their software technology and dynamic block storage allows customers to scale up and out on a single platform, adopting new technologies as they merge. Their automated tiering delivers more flexibility and better storage utilizations and legacy systems and solves the problem of inefficiently allocating physical space and underutilization.

If you look at this slide, whether its virtualization, automation, utilization or block-level capabilities, Compellent brings many Enterprise-ready solutions to the market now.

Now let me turn it over to Phil for a couple of comments.

Phil Soran: Well, thanks, Brad.

We here at Compellent are very excited about this new stage in Compellent's growth. For a long time, we believed in the power of our innovation and the technology and its ability to scale and change storage economics. We have a proven track record of delivering enterprise-class features to a growing and loyal base, with nearly 2,500 current customers that value the technology and service that we provide. These customers range from traditional mid-sized enterprises to large enterprises and cloud providers.

So why do customers buy Compellent? There are three key reasons. First, we offer the industry's best total cost of ownership story, with the persistent architecture that eliminates forklift upgrades. Second of all, our software innovation increases business efficiency, agility and resiliency, with features such as automated tiering, thin provisioning, and Live Volume. And third our space efficient Replay architecture helps customers reduce the amount of data that is duplicated while still protecting their valuable information.

We also have a good geographic footprint, selling in 34 countries and serving customers across a diverse set of verticals, including healthcare, education, government and financials. Our dedication to the channel within the assisted sales model is effective, and we have strong channel relationships which will be important as we move forward.

We want to accelerate with the Dell brand, with Dell resources and reach to introduce our Fluid Data storage to thousands more. If you look at Compellent and Dell as two parts coming together, this is a combination that will take our technology and leverage Dell's customer reach to expand across more verticals and geographies. We're really looking forward to working together, and I'll turn it back over to Brad for some closing remarks.

Brad?

Brad Anderson: Thank you, Phil.

Let me just wrap up by summarizing the key takeaways for this acquisition. First, Dell is building and acquiring solutions in areas where customers' needs are growing. Second, Compellent's architecture delivers excellent performance and scalability for cloud in highly virtualized environments.

Third, Dell's scale and reach will drive deployment and penetration of Compellent's products. And, finally, Dell is committed to open, capable and affordable solutions that deliver value and lower cost to ownership.

I want to thank you for joining us and now would like to turn it over to Rob Williams.

Robert Williams: Thanks, Brad. Now let's open it up for questions with Brad, Dave and Phil.

As a reminder, please limit your questions to one with one follow up. Angela, let's go ahead and take the first question.

Operator: Ladies and gentlemen, we will now begin the question and answer portion of today's call. If you have a question, please press star one on your telephone keypad. You will be announced prior to asking your question. If you would like to withdraw your question, press the pound key.

One moment, please, for the first question.

We'll take our first question from the line of Katy Huberty with Morgan Stanley.

Kathryn Huberty: Thanks. Good morning, gentlemen.

Question, Brad. As it relates to the argument you made around data management and true data mobility, is it your belief that Compellent software could span beyond the Compellent hardware to the other solutions you sell from EqualLogic, EMC and your own storage so that you could have one software platform over time?

Brad Anderson: Yes. Great question, Katy.

You know, it'll take multiple generations, but we think Compellent has many outstanding technologies. I mean, they were doing many of the same things that we were developing on the EqualLogic platform in terms of the virtualization of storage, automated tiering, the simplicity of the user interface. So, we absolutely think there will be a number of fantastic technologies from Compellent that we'll want to extend across our other products as we drive to provide a unified platform.

Kathryn Huberty: OK. And then, just quick follow up, what does the reseller agreement with Compellent include and how do you make sure that the EqualLogic and Compellent partners and then the Dell direct sales force work together rather than creating conflicts of interest?

Brad Anderson: The reseller agreement allows us to sell the Compellent platform. They have a single platform, so we, in fact, are selling the full platform, and so that commences immediately. And so, on the channel side, we will be able to sell that platform through our direct folks and then in the interim we'll be selling that to our - make that available to our channel partners, but we will not make that available through our channel partners initially. But then, our long term plan is absolutely to make it through our channel partners. So initially it will be through our direct resources.

Kathryn Huberty: OK. Alright.

Robert Williams: Yes, and I will - Katy, I would just add that, you know, I think we've demonstrated over the course of the last three years a really solid engagement with the channel. About 25 percent of our commercial revenue goes to the channel today and our partner direct program. We've really created some fantastic relationships with the channel and, Phil, I'd love to have you comment on that as well.

Phil Soran: Yes. I think one of the things that - when we had discussions with Dell, we were excited about their desire to reach out to our channel and extend the products that they can take to market. And I think we can make this a really, really good story for our channel partners and a real win for them.

Kathryn Huberty: OK. Congrats on the deal, you guys.

Phil Soran: Thanks, Katy.

Robert Williams: Thanks, Katy.

Operator: And your next question is from the line of Aaron Rakers with Stifel Nicolaus.

Aaron Rakers: Yes. Thanks, guys.

You know, back on the reseller relationship, I think when you guys were in the process of bidding on 3Par, you tried to invoke a similar type reseller relationship. So, I guess my question is can you talk about the process for Compellent, whether or not this was a competitive bidding war? And, if so, what type of termination fees might be involved here? And I do have a follow up.

Robert Williams: Yes. Dave, would you take that one?

Dave Johnson: Yes.

What I would comment on this is that this was a very friendly relationship during the discussions relative to this transaction. I'm sure that all the appropriate fiduciary responsibilities were managed during the process. And the reseller agreement is one that really is motivated to not enable us to have our sales teams begin to learn about this product and to begin to also educate our customers about this as an alternative.

So it enables us during the period between signing and closing really to start to prepare for the post transaction relationship that we're going to have. And that's really the motivation here is just to begin that process sooner.

Aaron Rakers: And then comment on the termination fee. And then the follow-up question would be as you know I think, Phil, we've talked in the past about obviously the Clariion platform being a competitor to a lot of what you do. Maybe you could talk about how you know this affects that Dell/EMC relationship as people look at that going forward.

Brad Anderson: Hey Dave, you want take the break up fee?

Dave Johnson: Yes, as is standard with transactions of this kind, we have a reasonable break up fee in the transaction similar to what you've seen in our past.

Aaron Rakers: OK.

Brad Anderson: On the EMC, we've had a ten year partnership with EMC. It's been a fantastic partnership and jointly Dell and EMC have close to 24,000 joint customers and

we have been talking with EMC and we're both committed to doing the right thing for those customers.

If you remember the Dell strategies about open, capable, and affordable and choice as a part of that open premise. And so we're going to continue to support those customers as they want to be supported.

Aaron Rakers: OK thank you.

Robert Williams: Yes thanks Aaron.

Operator: And your next question is from the line of Jayson Noland with Robert Baird.

Jayson Noland: Great thank you, congratulations gentlemen.

Brad Anderson: Thank you.

Jayson Noland: I guess relative to 3Par, are there any limitations you see with Compellent? After all, Compellent has one at Savvis and other high end environments. But do you see any limitations here?

Brad Anderson: Well we think the Compellent technology - Compellent sells in a slightly different place than 3Par but it does overlap and it's had very good success against 3Par. So we think it gives us good coverage in that space as well as probably covers the mid-range even more effectively than the 3Par technology.

Phil Soran: And, Jayson, I think your right - we've done a good job of winning some of those cloud providers, quite a few of them out there. I think we talked about our last earnings call having hundreds and hundreds of customers that have you know over 100 terabytes installed with us. Our scalability is very, very capable and we'll compete real well there.

Jayson Noland: Just a follow-up there Phil, do you plan to stay on here and help with the transition?

Phil Soran: Yes I have to, I have to help these guys learn how to sell the best product in the industry here so I'm looking forward to working with them here as we go forward.

Jayson Noland: Thanks guys.

Operator: And your next question is from the line of Brian Marshall with Gleacher and Company.

Brian Marshall: Great, thanks guys, appreciate it. You know with regards to your previous comments surrounding unified storage, was curious, obviously the companies you know last two major deals in enterprise storage has been either with regards to iSCSI or SAN. And I was wondering if you can comment on kind of your NFS sys approach to the unified element here.

Thank you.

Brad Anderson: Yes, just a couple comments, the whole industries going to unified. Many of our competitors have a number of legacy systems. So they have somewhat of a challenge to bring all those legacy systems into a unified architecture since those architectures are pretty different among their various solutions.

So we, on the other hand, we're kind of just building it a little bit more from scratch. And so we think that probably - we like that position frankly. And, so the acquisitions of Ocarina is to bring an industry leading de-dup and then to drive that de-duplication solutions across all our solutions rather than have different de-duplications for each individual architecture.

Similarly our purchase of Exanet is to bring file system capabilities again that we can drive across all of our solutions be it either primary or secondary. And so we think one key of a unified storage and frankly data mobility is to have as much commonality is reasonable among those key tool sets and capabilities such that when you either de-dup technology primary and move it to secondary there is no additional manipulation necessary to go do that.

And so that's a pretty powerful proposition and so you're going to continue to see us invest the technologies with this notion that unified is almost an architectural concept than a point product concept.

Brian Marshall: OK. From an integration standpoint, can you help us understand the other timing that'll take to kind of get to the marketplace with this type of solution?
Thank you.

Brad Anderson: Well this will be an evolution and so we'll come to market immediately with the Compellent solutions. And then over time, you're going to continue to see us make roadmap decisions to bring our products, to bring more and more of this unification across our full Dell portfolio.

So this is inherently a multi-generational endeavor. But even with that pace we think we're going to be well ahead of our competition.

Brian Marshall: Thank you.

Operator: And your next question is from the line of Amit Daryanani with RBC.

Amit Daryanani: Good morning and thanks for taking my questions. Just the first one, could you just help us understand when you look at your storage portfolio sort of what markets and environments do you see the Compellent and EqualLogic products best positioned for and how you're really going to differentiate between the two in the marketplace? And then is there already some overlap between the two products?

Brad Anderson: Yes let me say that today most of the EqualLogic solutions are sub-100,000 by even sub-50,000 iSCSI based SAN. I mean the Compellent average price is typically over 100,000 so the overlap is pretty de minimis today and because the philosophies between those two platforms are so similar we really think they're highly complimentary and view as such going forward.

Amit Daryanani: Got it and I just wanted to know as you came up with the evaluation analysis for this acquisition, could you just talk about what the revenue growth assumptions that you have built in? And do you think there's similar trajectory Compellent could have to what EqualLogic has done under Dell which is I think grow six, seven times in the last few years.

Brad Anderson: Well not going to share our assumptions but we think Compellent has a very good product and that Dell brings a reach to geographies and customers that Compellent could not otherwise get to. So we think that's a very good combination.

Amit Daryanani: Got it, thanks a lot.

Operator: Your next question is from the line of Kevin Hunt with Hapoalim Technologies.

Kevin Hunt: Thanks, I just wanted to follow up on the overlap question and maybe more of a general conflict question. Back when EqualLogic was purchased by Dell, I think Compellent was on the record as being very positive that it was going to help Compellent's sales due to the fact that it was highly overlapping with them at that point in time.

And the other I think positive they viewed back then was given that Compellent's 100% channel sales, they felt like that would drive channel partners more toward them. And so, maybe just a dual comment on has something changed in the last three years where now your saying there's minimal overlap when it was significant back three years ago?

And secondly, in terms of the channel, you've already addressed it a little bit but maybe you could talk about will there be any kind of negative impact from some of Compellent's current channel players now wanting, not really wanting to deal with Dell or maybe just more color on that please.

Brad Anderson: Yes let me make a couple comments here and then ask Phil maybe to share his thoughts. Phil can talk to his comments of a few years back, but per my earlier answer if we look at where we're kind of selling today there isn't that overlap.

So not sure what's changed but if I look at current positioning and current markets the overlap looks pretty de minimis. Secondly the channel's a very important part of the EqualLogic line up. We have worked very hard to make that an important part and that's continued to grow significantly and we would envision that wouldn't change and that Compellent's outstanding channel relationships would allow us to in fact grow our overall storage channel where we can now make Compellent products available to the Dell channel that wasn't already selling Compellent.

And likewise we can make EqualLogic and other Dell storage products available into the channel partners that Phil and the Compellent team has so ably served.

Phil Soran: Kevin, I'll tell you that when they did the announcement of EqualLogic acquisition it was a positive for us. I think there was a little reaction but I tell

you what I saw in the market is they did a good job of embracing that channel and keeping a lot of them.

And I know Brad and I we talked, and I was impressed that the numbers are able to drive through that channel today here and we've seen a real shift in that over the last couple years the channel friendliness of Dell.

So when I was looking at this transaction I really was, you know wanted to make sure it would be good for our channel and I felt real good about their embracing of the channel. And in fact, last week, after we did the press release, I reached out to all those channel partners and would tell you that it was a very positive reaction from people out there. Dell's viewed as more channel friendly now and they see this opportunity to get bigger reach, more products into the market and they saw upside with the, with the acquisition.

Kevin Hunt: Thank you.

Operator: Your next question is from the line of Maynard Um with UBS.

Maynard Um: Hi thank you, can you just talk about the linearity of the financial impact of Dell, it's accretive to the full year but wondering if it'll be accretive in the first quarter following the close. And, then if you can also comment whether this is an exclusive agreement and if you have certain rights that you had with 3Par in terms of first or the bidding opportunity there.

Thanks.

Robert Williams: Yes Dave, why don't you take that one and I'll jump in if necessary.

Dave Johnson: Sure. No we don't have, at this point in time, quarterly projections in terms of the performance here. What we can comment is that it'll be over the first 12 months accretive on a nn-GAAP basis to our earnings. In terms of the structure of this transaction relative to 3Par, it's different. All transactions in my experience are different.

If you're referring to the matching rights you saw become public when Compellent files the point, you'll find that structure is very different, doesn't have that type of terms in it.

Maynard Um: Great thank you.

Robert Williams: Yes and I would just add, it's important for us to move through the process here, close the transaction and work through some of the thought process on purchase accounting, integration, etc, and we'll definitely have more that we can share with you upon the closure of the transaction.

Operator: And our final question is from the line of Abhey Lamba with ISI Group.

Cedric Silas: Hi, this is Cedric Silas for Abhey. With the acquisition of Compellent, we were just curious if you feel that you have all the pieces in the storage space to be competitive or can we expect any other acquisitions in the near term?

Brad Anderson: Well we're going to - we think the storage opportunity is, as I said in the opening comments, is a big opportunity. And it's not just to store but to manage and we think we have a lot of really strong pieces now and we'll have as competitive portfolio in the marketplace out there.

But we think, as technology develops, there will always be additional opportunities to enhance that and we will continue to evaluate those technologies as they arise.

Cedric Silas: Thank you.

Robert Williams: Alright, great. Well, first thanks to everyone for participating this morning. We look forward to talking with each of you in much greater detail after the close of the transaction.

Have a great day.

Operator: This concludes today's conference call, we appreciate your participation. You may now disconnect at this time.

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