Dell to Acquire SonicWALL Conference Call
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OPERATOR: Good morning and welcome to the Dell and SonicWALL Conference Call. I would like to inform all participants, this call is being recorded at the request of Dell. This broadcast is the copyrighted property of Dell Inc. Any rebroadcast of this information in whole or part without the prior written permission of Dell Inc. is prohibited.

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I would like to turn the call over to David Mehok, Executive Director of Investor Relations. Mr. Mehok, you may begin.

DAVID MEHOK: Thank you, Regina.

Good morning, and thanks for joining us. We're pleased to announce that Dell and SonicWALL have reached a definitive agreement for Dell to acquire SonicWALL. On the call with me today are Dave Johnson, Senior Vice President, Dell Corporate Strategy; John Swainson, President of Dell's Software Business; and Matt Medeiros, President and CEO of SonicWALL.

We have posted our Web deck on Dell.com. I encourage you to review these materials for additional perspective.

Next, I would 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 website. We assume no obligation to update our forward-looking statements.

Now, I would like to turn it over to Dave.

DAVE JOHNSON: Thank you, David.

Good morning, and thanks all of you for joining us. If we move to Slide 3, please, I would appreciate it. We continue to execute on our strategy to develop and expand our solutions capability built on Dell's own IP. These solutions are open and scalable with a focus on enhancing customer's productivity, and eliminating unnecessary complexity. Not only are we enhancing solutions for our customers, but also clearly benefits Dell through our financial results because these are consistently more profitable revenue streams for the company.

Our strategy has not changed, and we are executing on it. We are making great progress and delivering solid financial results. Today's announcement is an important step to broaden our software portfolio in the critical area of security. As you know, security plays an increasingly important role, especially for Dell and for all of our customers. We are very pleased to have John Swainson as the leader of our Dell Software group, and SonicWALL will be the cornerstone of this portfolio from a security perspective.

We're building a strong set of software capabilities in important and fast growing markets with the expertise and technology from assets such as Boomi, KACE, Scalant, and AppAssure. These solutions enhance the software expertise we have built and are building in our server, storage, networking and mobility solution businesses, and are complementary to our hardware and services offerings. With the acquisition of SonicWALL, Dell will be able to bring to market industry-leading, differentiated, yet easy to manage security solutions.

Let me provide you with some more details of the transaction on Slide 4. SonicWALL is the leader in high growth in strategic areas of security including unified threat management known as UTM, and next generation firewall solutions. In our conversations with CIOs and IT executives, security continues to surface as one of the biggest concerns to managing their IT environment, especially if they want to leverage both their private and public clouds.

The combination of Dell's reputation as a trusted advisor to our customers, our distribution and sales capability combined with SonicWALL's innovative solutions in the security space address all these customer's needs. It's really a great fit strategically, operationally, and culturally for us.

SonicWALL designed comprehensive security solutions which combined advanced security capabilities with ease of use, delivering a high return on investment for their customers. This is consistent with Dell's design point, and will resonate well with our customers. SonicWALL is approximately a $200 million company based on its trailing 12 months of revenue with about two-thirds of its business in North America. A vast majority of the revenue is UTM, with a growing presence in next generation firewall solutions. SonicWALL has approximately 950 employees with the majority of those employees residing in research and development. More than 15,000 channel partners sell SonicWALL solutions to customers in over 50 countries.

The transaction has been approved by the board of directors of both companies, and we anticipate closing this transaction in early second quarter subject to customary regulatory procedures. We have a strong track record of integrating acquisitions of this size and scope based on our experience with similar acquisitions; we expect this transaction to be accretive to earnings on the non-GAAP basis in the second half of this year.

The combination will enable SonicWALL to leverage Dell's core equity, including our global distribution network, our heritage of direct customer relationships and customer intimacy, and of course our brand.

We're excited about welcoming SonicWALL to Dell, and even more excited about the opportunities for our customers.

With that, let me now turn it over to John.

John.

JOHN SWAINSON: Thank you, Dave.

Good morning, everyone. First, I want to let you know how pleased I am to be joining the Dell team, and I want to reiterate our enthusiasm for this transaction. As Dave mentioned, we've been making good progress in developing Dell Software IP. We look forward to talking to you more about this and our overarching software strategy at the Analyst Meeting coming up in June.

Today I want to focus on the powerful combination of SonicWALL and Dell. If you turn to Slide 5, I want to be clear that when we're referring to what we talk about as unified threat management, we're talking about Web security, virtual private networks, anti-virus and malware, intrusion detection and prevention, content filtering, application control in an appliance, and a next generation firewall technology.

Our customers have consistently provided concerns about security solutions. UTM addresses these concerns through a comprehensive and integrated solution. It brings simplicity to what can be a very complex issue. It brings a reduced level of technical training needed for the IT staff. It brings streamlined installation. It gives customers the ability to update all their security functions concurrently, and the solutions help customers adhere and be compliant with regulatory demands.

The demand for a comprehensive UTM solution is driven by increasing customer concern about cyber security. IDC estimates that this market is growing at about 13 percent per year through 2015. The market continues to present opportunities for growth as customers in emerging markets are buying their first UTM solution and customers in developed regions of the world are hitting the point where they need to upgrade to more capable, next generation solutions.

Three trends are driving an increased need for these dynamic, yet easy to manage security solutions. First, the exponential growth of data, the rapid growth of cloud-based solutions, and thirdly the increased presence of consumer devices, mobile devices in particular being brought into the enterprise.

All of these trends are creating significant business risks and businesses are feeling worse, not better, about their ability to defend against the risks. In addition, our customers continue to face a more data-security regulation. Examples of these regulations are HIPAA, to protect health information, FFIEC, guidelines to protect banking system, GLBA to protect financial records, FSMA to protect government systems, NERC CIP to protect critical infrastructure at utilities and energy providers, and PCIDSS to protect credit card data.

On slide six you can see that all of these IT and regulatory trends are creating a very complex and potentially difficult environment. This puts a premium on security prevention solutions that are comprehensive, effective, and importantly easy to implement and manage. The addition of SonicWALL to Dell's security portfolio gives us a very extensive range of security solutions, including the KACE Endpoint Security application, and data security from AppAssure and Dell's data protection offering, as well as our security services from secure works.

On slide 7 you'll see an overview of the SonicWALL software and solutions portfolio. Within UTM next generation firewall technology is an area that is generating meaningful growth for SonicWALL and is a natural extension of our customer's that grow from being small and medium businesses into larger enterprises. Their security needs will become more complex and can require a high-end solution like the next generation firewall technologies.

SonicWALL's super-massive solution is the leading offering in this space. NSS labs, a recognized leader in independent security product testing has recognized the super massive solution as one of only two in the recommended quadrant of this next generation firewall space. In

addition, Sonic Wall delivers solutions that help businesses safely and efficiently adopt the cloud, addressing many of their pressing security concerns.

So, in summary I'd like to leave you with the following takeaways. First of all, our customers see security as one of their key IT risks. In some cases their most important IT risk. Dell is building a software portfolio to address the needs of our customers with key assets focused on fast growing and highly profitable segments of the marketplace. And SonicWALL gives us access to a team with best in class resources and technology that will position us very well in the strategic segments of software security. And last, but not least, the SonicWALL team is a superb fit, both technically and with the Dell culture.

So, having said that, I'd like to turn it over to Matt.

MATT MEDEIROS: Thank you, John. Good morning, everyone. I'm excited about becoming part of Dell and the entire team at SonicWALL is looking forward to being an integral function in enabling Dell software and security vision. This agreement is great for SonicWALL and our customers. We have been focused on producing unparalleled security solutions. Dell and SonicWALL have a shared focus on delivering differentiated IP with world-class service support, and value. Customers rely on Dell to provide comprehensive data center solutions. Dell's distribution, reach and brand are well recognized across the industry. We are recognized as a leading security solutions provider for small and medium businesses, with our next generation firewall solutions.

SonicWALL aligns well with Dell's mid-market focus and this transaction will allow us also to accelerate the growth of our super-massive product line into Dell's large enterprise customers. There is some overlap between our 15,000 channel partners and Dell's existing 100,000 partners. Dell has a proven track record on effectively incorporating channel partners of acquired companies and we look forward to expanding both SonicWALL's and Dell's channel reach with the integration of these partners.

SonicWALL has made great strides in our operating performance as a private company over the past two years. We have continued our aggressive pace of innovation across all product lines, and have introduced many new solutions for our traditional SMB customers. We have also expanded up-market through the introduction of Supermassive's next generation firewall and other network security products for large enterprise customers. We believe that taking this step with Dell is a very natural progression of our business and offers our customers some great advantages that are not available to us today, given our scale and size.

It's exciting to think about the potential of integrating SonicWALL's technology, R&D capabilities with Dell's reach, existing solutions and reputation.

Thank you. Let me turn the call back over to David.

DAVID MEHOK: Thanks, Matt. For Q&A, just one quick point of clarification, SonicWALL's revenue is approximately $260 million. And with that I'm going to open it up for questions with Dave, John, and Matt. As a reminder, please limit your questions to one, with a follow-up.

Regina.

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 Toni Sacconaghi with Sanford Bernstein.

ERIC GARFUNKEL, Sanford Bernstein: Hi, this is Eric Garfunkel calling on behalf of Toni. Our question is that, given that you've scheduled a conference call the acquisition price and importance of this deal would seem to be material. We would guess the price was $1 to $1-1/2 billion. Can you comment on the price?

DAVE JOHNSON: Yes, this is Dave Johnson. Consistent with our practice on all the acquisitions of public companies -- private companies, we've selected not to disclose the purchase price and that just -- that's our policy.

ERIC GARFUNKEL: Okay. And then as a follow-up, can you comment if the deal will be cash, using cash, and if so is it U.S.-based cash and will you need to take on any additional debt. Thank you.

DAVID JOHNSON: We do intend to use cash. It will be U.S. cash and we don't intend to take on additional debt.

ERIC GARFUNKEL: Thank you.

OPERATOR: We'll take our next question from Mark Moskowitz with JP Morgan.

MARK MOSKOWITZ, JP Morgan: Thank you, good morning. The question is around just the enterprise penetration. I know SonicWALL historically has some difficulty penetrating the enterprise, whether it's due to branding or just a channel affinity. So, I want to get a sense just in terms of your analysis. You think you can apply maybe a two or three, a multiplier here as you think about leveraging the Dell channel. Then I have a follow up.

DAVE JOHNSON: Yes, this is Dave Johnson, again. We think there's a bunch of growth trajectories for the company, leveraging capability of SonicWALL. One of them is what you've articulated; our ability to leverage our brands and our distribution, particularly on a global basis, since, again, two thirds of their revenue today is in the U.S. We also understand, as you do, that they've just recently released their super-massive product of next generation firewall. That's a whole new product segment for them and for us. So, the growth trajectory we think will also be accelerated as we leverage that technology. And that technology appeals to a broad range of customers, including the larger enterprise that you were asking about.

MARK MOSKOWITZ: Okay, thank you. And then the follow-up, I just want to get a sense in terms of that growth trajectory, will Dell be able to marry that with a much better operating margin profile for SonicWALL? I think part of the reason why they want private was to kind of clean out the house, if you will, in terms of the cost structure. Should we think about SonicWALL's operating margin profile being north of 20 percent now?

DAVID JOHNSON: I think that a lot has happened while they were a private company, and our expectation is that this will have margins that are consistent with a software company.

MARK MOSKOWITZ: Okay, thank you.

OPERATOR: We'll take our next question from Shannon Cross with Cross Research.

SHANNON CROSS, Cross Research: Thank you very much. My question is somewhat of a follow-up. I'm just curious if you looked at your historicals, and then you went private, of course. You were shifting more and more to license. I'm just curious as to sort of the stales strategy, is it to discount the hardware and focus on the license, or has that trend continued, and it sounded like it, over the last couple of years?

MATT MEDEIROS: Shannon, this is Matt Medeiros. Shannon, we've continued to progress our license and services revenue streams. They represent over 50 percent of the revenue of SonicWALL. And, again, I think that that's a very important part of the security solution, continually updating and creating a dynamic solution software sets that our customers know that they can be protected from.

SHANNON CROSS: Okay, and can you talk a little bit, Matt, about your key competitors, about the low and the high end, and if your focus is to sort of shift away from the low-end more toward to the high-end with the SuperMassive, or sort of how are you positioning it with your sales force?

MATT MEDEIROS: Well, let me take the latter question first. Dell has over six million small business customers. We have about 200,000 new small business customers a year. There's a tremendous opportunity for us to continue to grow our SMB opportunities here. But there's no question that with SuperMassive, and the recognition by many of the industry analysts as this being one of the best enterprise security solutions, and with Dell's concentration in the data center, we now have an opportunity to really progress our product offering, and provide next generation solutions and firewalls for the data center and large enterprise.

And I would like to just make a quick comment about SonicWALL and enterprise success in the past. We clearly have shown and had a great track record of distributed networks, so remote branch offices in the enterprise. Our small business solutions worked very well in remote branch office environments. Now with Dell in the data center, and SuperMassive as our technology, we think we've got a great opportunity to build a full complement of solutions for our enterprise customers.

SHANNON CROSS: Okay, and then the key competitors?

MATT MEDEIROS: Key competitors are Cisco, Juniper, Fortinet, those are the companies that we've always competed very well with. Our market share leadership in the SMB has grown over the last 18 months to where we, in fact, have a substantial market share position here in North America for our SMB solutions.

SHANNON CROSS: Okay. Thank you.

OPERATOR: We'll take our next question from Brian Marshall with ISI Group.

BRIAN MARSHALL, ISI Group: Great. Thank you. It sounds like you just commented a little bit on that, but I was wondering what the overlap here is with the Dell PowerConnect, the JSRX service gateways that you have a partnership with Juniper. Can you talk a little bit about that overlap in a little bit more detail?

DAVE JOHNSON: You're right, we do have relationships with Juniper. But consistent with our strategy of owning more of our intellectual property, we'll continue to complement our capabilities with the partnerships where it's appropriate, and we don't see much overlap at all with the PowerConnect. Those are different streams.

BRIAN MARSHALL: Okay. And so, with respect to SonicWALL's penetration of large enterprise accounts so far, can you give us a little bit more granularity with respect to how that has progressed throughout the last couple of years? Thank you.

MATT MEDEIROS: Again, this is Matt Medeiros. Look, about 25 percent of our revenue streams our billings come from actual enterprise customers. Again, some of it is remote branch office,

some of it is SSL/VPN. We're a leader in the SSL/VPN market with our Aventail product. But, also, again, I want to lean on SuperMassive. Our very first sale of SuperMassive was done with our partnership, our reselling partnership with Dell. And we've demonstrated with Dell that we can, in fact, satisfy enterprise security solutions.

OPERATOR: We'll take our next question from Maynard Um with UBS.

MAYNARD UM, UBS: Hi. Thanks. I'm just looking at the trailing 12 months, around $260 million. Can you just kind of tell us what the growth rate was from the prior 12 months, so we just kind of get a sense of the run rate? If I look at the '09 revenue, it was around $200 million, in 2010 on the run rate it looked like it was on track to about $250 million. So, I'm wondering why there doesn't appear to be much growth there despite the markets that you're in, and then I have a follow-up please?

MATT MEDEIROS: Yes, Maynard, this is Matt Medeiros again. As you know, with the license and services model a lot of your revenue actually gets deferred based on the subscription basis, and it gets prorated on to our revenue stream. We've been growing our overall business in the mid-teens. Our next generation firewall business, though, has been growing in the mid-20 percent range. And we think that that's representative of the technology that we've developed over the course of the last three years. And, frankly, again the ability for us to go off and to penetrate the data center and the large enterprise market.

MAYNARD UM: Great. And then can you just talk about the areas of vertical strength for the company, and then in the areas where Dell doesn't particularly have strong channels there, what the plan is from that perspective? Thanks.

MATT MEDEIROS: Well, again, I think the real strength comes obviously on the back of our SMB customers, and that's an area that Dell has substantial strength in. And we just see this as a great opportunity for continued growth right in our wheelhouse.

Relative to other verticals, currently we've had great success in universities and higher education, which tend to be very, if you will, dynamic security environments. I mean, there's a tremendous amount of threat and malware that is generated in those kinds of environments.

Recently, though, we've had some pretty good success with major communications, telecommunications companies, U.S. Cellular, Telefonica, and so I think this demonstrates our ability to really hit at the core of the data center types of environments. We're also very strong in some of the financial markets protecting small and regional banking institutions, as well as regional and branch offices for major financial concerns.

JOHN SWAINSON: And, Maynard, let me just add one more point, it's our intention to incorporate all of the SonicWALL channel partners into Dell's channel partner program. So, we're looking to build and grow that, and broaden the distribution of these products.

DAVE JOHNSON: Yes, in the classic way we'll both enable them to sell -- excuse me, we'll enable SonicWALL's channel partners to broaden their portfolio, as well as existing Dell distribution partners to broaden theirs. So, it will be cross-synergies.

MAYNARD UM: Great. Thank you.

OPERATOR: We'll now take our final question from Abhey Lamba with Mizuho Securities.

ABHEY LAMBA, Mizuho Securities: Yes, thanks. Just to follow-up on that, Matt, you mentioned you guys have a subscription model in there. Can you just give us a breakdown of

what goes into the business' license for the subscription, and also if it's a big part of subscription what was the bookings run rate? And then I have a quick one for John.

MATT MEDEIROS: Well, again, over 50 percent come from licensing and subscription services, subscription services being the largest piece of that, representing over two-thirds of that value. Relative to the bookings growth that we're experiencing in that category, it's been very strong. Again, with our next generation firewall solutions, that particular solutions carries a large percentage of subscription services. So, customers truly buy a tremendous amount of subscription services that we offer simply because of the type of technology that's incorporated in our next generation firewall.

ABHEY LAMBA: And, John, welcome abroad. I just wanted to get an understanding of what is your vision for the Dell Software group, and given your vast experience in software which areas of the stack really make sense for Dell to participate in, in your view? Thanks.

JOHN SWAINSON: Well, I'm going to be much more intelligent in talking about this in June. But I think you can assume that we'll be looking for software that leverages and complements the rest of Dell's portfolio. And with that, I will refrain from committing myself to anything more until I've had more than two weeks on the job.

DAVID MEHOK: I want to thank everyone for participating today. We look forward to talking with you in much greater detail after we close the transaction. Have a good day.

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