Dell to Acquire Wyse Technology Conference Call

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OPERATOR: Good morning and welcome to the Dell and Wyse Technology 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, Inc. 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 one on your telephone keypad at any time during the presentation. I'd like to turn the call over to Rob Williams, vice president investor relations. Mr. Williams, you may begin.

ROB WILLIAMS: Thanks, Regina. Good morning, everyone, and thanks for joining us. We're pleased to announce that Dell and Wyse Technology have reached a definitive agreement for Dell to acquire Wyse.

On the call with me today are Dave Johnson, Senior Vice President of Corporate Strategy; Jeff Clarke, Vice Chairman of Global Operations and End User Computing Solutions; and Tarkan Maner, CEO of Wyse Technology.

We posted our web deck and press release on Dell.com and I encourage you to review these materials for additional perspective. 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 website. We assume no obligation to update our forward looking statements.

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

DAVE JOHNSON: Thanks, Rob. Good morning, everyone, and thank you for joining us. If you would advance your deck to slide three for a moment, please. We at Dell continue to execute on our strategy to develop and expand our solutions capability built on Dell's intellectual property. These solutions are open with a focus on enhancing customer productivity, delivering results faster and eliminating unnecessary complexity. We're making great progress in delivering solid results on this strategy.

Today's announcement is an important next step to our end user computing strategy. It enhances our portfolio in the critical area of client computing and further supports our efforts to help our customers innovate end to end IT solutions from the edge to the core of the cloud. The acquisition of Wyse Technology compliments and expands Dell's existing desktop virtualization capabilities, allowing us to offer industry leading and differentiated solutions to a fast-growing segment of the end user computing space.

In addition, it also provides synergies with our enterprise solutions business. Our ability to now offer an industry leading cloud client computing solution will provide opportunities for Dell to further accelerate the growth of our servers, storage and network portfolios. IDC estimates that worldwide thin client demand will grow 15 percent per year to approximately 3 billion by 2015, and that the end to end datacenter infrastructure stack for these solutions is expected to exceed 15 billion by 2015. And with Dell's portfolio, we'll be able to participate in this broader opportunity.

Now, if I could ask you to move to slide four of your presentation, I'll give you some more details relative to this specific transaction.

Wyse Technology is a leader in the high growth and strategic area of cloud client computing, ranking number one worldwide in thin client unit share in the fourth quarter of 2011. Wyse delivered approximately $375 million in annual revenue over the trailing 12 months.

Wyse has approximately 500 employees with 150 employees in research and development, most of which are software engineers.

In addition, it has approximately 250 sales specialists that are solely focused on selling Wyse cloud client computing end to end solutions. They have more than 3000 channel partners that sell Wyse technology on a global basis.

This transaction expected to be accretive to Dell's non-GAAP earnings in the second half of fiscal year 2013.

Dell's reputation as a trusted adviser to our customer, our distribution and sales capabilities combined with Wyse's innovative solutions in cloud computing will help address customers' needs and is a great strategic fit, both operationally and culturally for Dell.

Finally, Dell has a strong track record of integrating acquisitions of this size. Based on experience with similar acquisitions, we expect this transaction to be accretive to earnings on a non-GAAP basis in the second half of this year.

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

With that, let me turn it over to Jeff. Jeff?

JEFF CLARKE: Thanks, Dave. Good morning, everyone.

First, I'd like to reiterate our enthusiasm regarding this transaction. As Dave mentioned, we are committed to developing innovative and complete end to end solutions for our customers and today's announcement is an important next step in that strategy.

If you would forward the deck to slide five, please.

We see a growing opportunity in cloud client computing. This includes thin and zero client hardware, client infrastructure management software, virtualization end user optimization software, datacenter networking and implementation and managed services.

It compliments and extends the desktop virtualization capabilities that Dell has today. These solutions offer customers an alternative compute model and helps enterprises enhance security, streamline desktop management and boost user productivity.

Examples of the benefits that a cloud client computing solution can provide include,

- One, reducing the risk to customers' most valuable information by protecting it behind the walls of their secure datacenter.

- Two, improving control of their IT resources with a centralized, virtualized and automated approach to image and application management.
- And three, encouraging their employees to produce their best results by giving them the flexibility to work where, when and how they choose.

Slide six, please.

We have discussed our strategy and end user computer was first to strengthen our core business by implementing sustainable supply chain improvements and the results of which were evident in FY ’12.

Our next goal was to deliver solutions and include compelling devices plus the tools to secure, manage that hardware, software and data. You’ve seen the results of that with some of our recent product announcements, as well as the strong growth of our transactional services business in FY ’12.

And finally, we indicated our intensions to expand our reach into new and fast-growing areas of the end user computing. The acquisition of Wyse Technology and its portfolio of industry leading capabilities is the next step in our end user computing strategy.

Slide seven, please.

As Dave mentioned, Wyse is a global leader in client – excuse me – in cloud client computing. Its portfolio includes a wide selection of industry leading thin and zero client devices designed easily to integrate into a virtualized or web based infrastructure.

Differentiated IP and device management, thin client operating systems, and mobility software that is customized to offer the best user experience with Microsoft, Citrix and VMware virtual desktop infrastructures.

Wyse solutions require less memory and processing power than other comparable thin client solutions, making them more cost competitive and effective for customers.

To date, Dell has relied on shared IP solutions to serve its thin client customers. With this transaction, we are moving to a more profitable industry leading and complete end to end solutions with Dell owned IP and the associated R&D capabilities with it.

If you would move to slide eight, please.

Wyse Technology’s portfolio complements and extends Dell vision of providing innovative and complete end to end solutions to our customers. In addition, the combination of Wyse Technology with Dell’s brand and customer reach presents a dramatic increase in Wyse’s addressable demand.

I’d like to leave you with the following takeaways;

- Client cloud computing addresses many of our concerns, or many of the concerns our customers have around security, manageability and productivity.

- Dell is focused on developing innovative and complete end to end solutions that address the needs of our customers with key assets and fast growing and highly profitable areas of the industry.

- Wyse Technology gives us access to best in class resources, technology, team members that position us well in this strategic segment of cloud client computing.

- And lastly, the Wyse team is superb and a great cultural fit for Dell.

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

TARKAN MANER: Thank you, Jeff. The entire team at Wyse is excited about joining the Dell team and becoming an integral part of enabling Dell's end user company vision. This agreement is great news for our customers and channel members worldwide. We've been focused on delivering innovative solutions for our customers and channel members for the past 30 years now. To be exact, 31 years now.

Dell and Wyse share a focus on delivering innovative IP, world class service support, and optimized overall value to our customers and channel members.

Customers and channel members rely on Dell to provide comprehensive end to end IT solutions. Clearly, Dell distribution, reach and brand are well recognized across the industry and it has industry leading capabilities across servers, storage, networking services and end user computing solutions.

Wyse has historically been recognized as a leader in cloud client computing where our skills and capabilities in security, manageability, availability, reliability, lower total cost of ownership both in terms of CAPEX and OPEX, and scalability have been key differentiators in delivering the best value to our customers and channel members.

Through the combination with Dell, we see obviously a tremendous opportunities to grow our core desktop virtualization business, as well as to expand into new and fast growing market segments and on mobility, and cloud computing.

These include infrastructure and content management as a service solution from the cloud for large enterprises, for small and medium businesses, as well as consumers.

We have extended our solutions into the unified communications space lately as well, providing voice, data, and video (what we call triple play) type of content delivery from the cloud for any user, for any content, for any app on any device, anywhere, anytime. And we would like to say, without compromise, without constraint or conflict.

Our strong alliance ecosystem will be able to benefit from the extensive solutions portfolio they can now provide to their customers in teaming up with Dell. The Dell PartnerDirect program currently has 100,000 channel members and a proven track record of effectively onboarding and training channel members of acquired companies.

This is exciting for us. Wyse has a history of innovation across all of our product lines and have recently introduced many new solutions for our customers and channel members with more than 180 patents; to be exact, 182 patents in cloud client computing.

We believe that taking the next step at Dell is a very natural progression for our business and offers our customers and channel members some great advantages that are not available to us today at our scale and size.

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

We believe our customers and channel members worldwide will benefit in a big way from this entire combination.

So, on that note, thank you very much and I will hand it back to Rob.

ROB WILLIAMS: Thanks, Tarkan.

Let's go ahead and open it up for questions with Dave, Jeff and Tarkan. As a reminder, please limit your questions to one with one 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 Brian Alexander with Raymond James.

BRIAN ALEXANDER: Thanks. Maybe just some more detail on Wyse's hardware/software mix and margin structure, and what growth assumptions did you guys make to justify the price and over what time period and did you make any assumptions about cross-selling Dell branded enterprise solutions when coming up with the price?

ROB WILLIAMS: Yes, I guess I'll start with that and maybe ask Dave to follow up a bit on that.

Today, the majority of the revenue is from the thin client and zero client business with the growing percentage of that revenue now starting to come from some other areas, including some of the things that Tarkan spoke about.

And so, that's kind of the base of the revenue today. If we look at and project out a few years, clearly a big part of this transaction is the synergy that we would get from our datacenter solutions business, including servers, storage, networking services, and software.

We also would expect, you know, within the services space, maintenance and some ongoing hosting opportunities over time, and there are also opportunities even in software and peripherals(S&P) if you think about the things like monitors and other items that you would sell in conjunction with a thin client solution.

So, it's a big part of the business case and, Dave, I'll ask you to jump in there if you have any other thoughts.

DAVE JOHNSON: Sure, I'd be glad to, Rob.

First thing I'd comment on is that Wyse is an independent entity has really been gaining momentum to grow into a number one market share position. In fact, they are growth accelerated in their last fiscal year to 45 percent.

Far outstripping the mid-teens industry average growth, both historically and projected in the future for this segment. And that's driven by the breadth of their portfolio and the differentiation that they bring to their customers.

Now, as we built our business case, we're actually much more conservative and assumed that we would grow with the industry in this particular market, although we have expectations to do better than that.

And as Rob eluded, the thin client portion of the entire stack is really a small piece. Our expectation and our experience has been as we engage with our customers on helping them determine how to solve for this workload set of requirements – and it really is a workload that you're talking about – and your engaging at a much more comprehensive enterprise level about a solution.

And if you move to a thin client solution, and clearly the network, compute and storage moves, whether that's into a private cloud or a public cloud, it's in part of the entire solution.

Wyse is an independent entity that didn't have, of course, access to the broad portfolio that we do. We'll actually be able to strengthen their and our capability by providing that comprehensive solution to the customers.

And I shouldn't have left out, of course, our capability to add world class services to the entire mix on behalf of the customers.

So, we believe the combination of our service and enterprise with our capabilities and the added capabilities of Wyse in the client space is a great combination and will be extremely synergistic for us.

Relative to your last question about the channel, as is customary for us with all our acquisitions, we will clearly embrace the channel, both the channel that will come with us with the acquisition of Wyse and our current channel partners and broaden both of their – give them incentives to broaden both of their portfolios to – for Dell, you know, providing the Wyse capabilities and, of course, for the Wyse, much broader access to the entire Dell portfolio.

So, again, that is another potentially synergistic aspect of this transaction for us.

JEFF CLARKE: I would add, I think, a key element that much of their software value is captured in the hardware itself. So, for example, they build on top of the protocols in our industry events features ahead of others, whether that's multi-monitor support, the integration of voice, data and video, and/or USB redirect.

Their ability to put those features into the platform ahead of the industry has allowed Wyse to extract value for that from its customers.

It also, as we mentioned in our remarks, their thin OS and the IP around the thin OS has allowed them to drive greater performance using less memory and they extract a value for that in the industry.

And then the bigger picture Dave hit on, for every thin client hardware dollar that exists in our industry, there's $5 of enterprise servers, storage, networking services that go along with that. So, our ability to really move into that $18 billion marketplace with an end to end set of solutions from Dell is certainly how we view the asset a key piece.

DAVE JOHNSON: And consistent with all our acquisitions as Jeff eluded, they have a great intellectual capability represented by their patent portfolio and the fact that the vast majority of their research and development is really software-centric.

BRIAN ALEXANDER: Thanks for all the detail.

DAVE JOHNSON: You're welcome.

ROB WILLIAMS: Thanks, Brian.

OPERATOR: We'll take our next question from Richard Gardner with Citigroup.

RICHARD GARDNER: Ok, thank you. I guess I'd just like to ask regarding the timing of the acquisition. Obviously, this is a capability that Dell could have developed probably internally. Does the fact that you decided to do this acquisition now suggest that you're – Dell is seeing an inflection in the number of customers that are looking for these types of solutions and maybe if you could just give a little more detail on that and what you're hearing from customers at this point on thin client? Thanks.

JEFF CLARKE: Sure, Richard, I think what we view is the momentum around alternative computing is a trend that we see many customers continuing to experiment with and in many cases, beginning to deploy.

The adoption rates are still relatively low for desktop virtualization, but there clearly are a lot of customers out kicking the tires, very similar to maybe a decade ago around server virtualization. Not that I'm comparing the two, but more of just the adoption rate.

And we think this is an opportunity particularly in the verticals around financial services, government healthcare, and the financial services sector to really take a leadership position. Wyse Technology does have a leadership position in the thin client itself.

We have very strong presence in the enterprise and each of those verticals and us building – and Dell now being able to build end to end vertical solutions for these set of customers where it makes sense is key.

And again, I would emphasize we don't see the entire world going to thin clients. We still think there's a healthy PC demand in the industry and there's a balance of alternative computing that allows people to take advantage of securing their information, managing the assets in a very differentiated way.

And as Dave said, which I think is key in our thinking here, this is a different workload. We look at this workload from the device out on the edge to what we do in the datacenter, providing a set of services and value offerings to our customers.

DAVE JOHNSON: So again, I agree with Jeff. This is really specific use cases. For example, in regulated industries like healthcare and financial services, the value of centralizing your data to better have access and control is a specific use case that this thin client desktop virtualization lends itself to.

And also, lends itself to environments in industries where, again, there's a desire to simplify the endpoint and manage the application much more centrally. That is often the case in education and ever increasing in some of the emerging geographies.

So, we see this as an opportunity, again, to provide specific solutions to specific customer problems and much more industry-centric approach to our business.

RICHARD GARDNER: Ok, thank you.

OPERATOR: We'll take our next question from Katy Huberty with Morgan Stanley.

KATY HUBERTY: Thanks. Congrats on the deal.

Just a follow-up from the last question, do you have any specifics around what percentage of your VDI customers for Dell are incorporating a full PC versus a thin client? And then any thoughts as to whether there's anything on the horizon that would, you know, increase the ratio of thin client penetration versus a full PC in virtualized installations?

And then I have a quick follow-up on the financials.

DAVE JOHNSON: Yes. We don't see any real dramatic change. The IDC forecast continues to project into the future a sort of steady 15 percent growth rate. So, there's no apparent broad inflection point.

And as we articulated a moment ago, these are mostly fairly specific situations where the value proposition applies. And so, today, the total opportunity is, you know, counting the entire stack is about $3 billion. And so that's still a relatively de minimis piece of the overall PC industry.

KATY HUBERTY: But, just to be clear on that point, you do have customers who are virtualizing their desktop and still purchasing regular Dell PCs rather than thin client?

JEFF CLARKE: No, that is absolutely correct. A common deployment today is on a standard PC that's been virtualized. Yea, I mean, we've seen that business grow in demand through last year and expect it to grow in demand this year.

KATY HUBERTY: OK.

JEFF CLARKE: And again, I don't think a zero client or a thin client is an answer for all customers. I think in our mind the bigger message here is we now have a range of devices, an incredibly strong portfolio of thin client devices and zero client devices from Wyse, the standard Dell set of PCs, which do virtualization, and now the ability to manage those in a very differentiated way with the key software assets that we're bringing on board that expand themselves to tablets, expands itself to mobile phones.

And the fact that in some cases these usage models are moving to the cloud and the ability to do client cloud computing, I think is key, and a key element of this acquisition.

KATY HUBERTY: OK. And then just a quick follow-up on the financials, maybe for Rob, was the $600 or $700 million of revenue run rate from SonicWALL and Wyse acquisitions incorporated in the full year guidance and same thing for the EPS accretion, or is this incremental?

ROB WILLIAMS: Well, you know, first of all, we just shared the EPS target for the full year and so that would be contemplating to the best of our abilities, some acquisitions throughout the year. So, I mean, yes, that would kind of be in the thought process.

KATY HUBERTY: Ok.

ROB WILLIAMS: And secondly, you know, these transactions are – both of the transactions you mentioned, you know, including AppAssure which was announced to close in the second quarter.

So, really the appropriate time to kind of get in any additional discussion around the revenue and obviously it will bring some more Opex with it as well, would be kind of on that call.

KATY HUBERTY: OK, great. Thanks so much.

ROB WILLIAMS: You bet.

OPERATOR: We'll take our next question from Bill Shope with Goldman Sachs.

BILL SHOPE: Ok, thanks. You mentioned earlier some of the verticals that have been early adopters for this type of technology, can you talk about what you think some of the remaining barriers to broader adoption may be and how, perhaps, Dell is still solving that and what this acquisition does to help you there?

JEFF CLARKE: Hey, Tarkan, why don't you take the lead on that question and then Dave and I will add to that, please.

TARKAN MANER: Sure. Bill, thank you for the question. So, you know, some of the barriers – before the barriers, just from a vertical perspective, you know, we see growth both in public sector and private sector, obviously, both in large enterprise and midmarket.

And from a bigger perspective, we see from time to time, some companies do not have the right level of datacenter portfolio and datacenter ecosystem. Sometimes we see certain customers in certain – in vertical industries or geographies complain about the fact they don't have the right networking systems in the backend.

So, you see, now, these open up an opportunity, obviously. So, those two are mostly the biggest barriers for deploying desktop virtualization centric cloud client portfolios and platforms.

Jeff, back to you.

JEFF CLARKE: Thanks, Tarkan. I think the key elements – one of the opportunities we have has changed the value proposition to make the total cost of ownership around manageability, securing the data and the devices much more efficient and attractive for our customers.

I think the differentiated technology that we're getting with the integration of Brad Anderson's and Steve Schuckenbrock's businesses, allow us a unique position to do this for our customers.

BILL SHOPE: Ok, thank you.

OPERATOR: We'll take our next question from Toni Sacconaghi with Sanford Bernstein.

ERIC GARFUNKEL: Hi, this is Eric Garfunkel calling in on behalf of Toni.

Could you just go through the growth and operating margin profile for Wyse and how it compares to Dell's overall current margins? And then I have a quick follow-up.

DAVE JOHNSON: This is Dave. I'll try to address that.

So, the past, you know, fiscal year, their revenue growth was approximately 45 percent. So, on a relative basis obviously that's a faster growth rate than Dell achieved.

And they hit double digit income margins as well. So, we see this as beneficial from those parameters.

JEFF CLARKE: I think I would add to Dave's comment is, I think, the series of acquisitions we've made, what we applied Dell owned IP and end to end solutions, we see accretive margins to the company.

And when we think about this asset with the end to end capabilities that I just mentioned earlier and the Dell owned IP portion of this, we believe that will drive accretive margins to the structure of the company.

ERIC GARFUNKEL: Thanks. And then just on the revenue side, because you had mentioned seeing specific vertical opportunities, do you have any details on the split today of revenue by verticals or by geography?

DAVE JOHNSON: The geographic mix is roughly 40 percent U.S., 40 percent EMEA and 20 percent APJ.

ROB WILLIAMS: I don't have the customer segment mix. I mean, Tarkan, if you have that and can provide it, just in kind of an approximate or general way, I think that would be appropriate.

TARKAN MANER: Sure. I'll give you a very high level - I would say from a vertical perspective, I would say 50 percent public sector, 50 percent private sector. When I say public sector, we mean, obviously, you know, state and local governments, healthcare, education, and federal government type of deployments and also private sector, you get the point.

In terms of customer size segmentation, I would say about 50 percent large enterprise, 50 percent midmarket/small business is our business at very high level, Rob.

ROB WILLIAMS: All right, thanks, Tarkan. I appreciate that.

ERIC GARFUNKEL: Thank you.

OPERATOR: We'll take our next question from Ben Reitzes with Barclays.

BEN REITZES: Hey, thanks a lot.

I wanted to know if you expect to accelerate the growth rate actually from 45 percent, given synergies from Dell, and then, if you do or whatnot, is the revenue incremental or do you expect any substitutional revenue as well? Like, do you expect that maybe Dell client sales will be hurt by Wyse and then it wouldn't be completely additive, we'd have to subtract a little from the client side? Thanks.

DAVE JOHNSON: Yea, I mean. I can't get into the specific details by line item with you for obvious reasons, but as I indicated earlier, our projection is that we will maybe conservatively grow with the industry relative to thin client.

But, of course, as you're pointing out, they didn't have the ability to integrate the comprehensive solution with networking, storage, compute, as well as wrap all the services around it. So, much of the revenue acceleration is driven by those synergies that you're pointing out and we expect that to be significant in terms of the growth rates that we'll be able to achieve through the entire offering that we will provide.

ROB WILLIAMS: And I would just add, Ben, that – you guys know this as well, when you go through the purchase accounting process there's quite a bit of work that's done on, you know, the GAAP versus deferred and that's something that we'll know a lot more about once we finish the purchase accounting.

And you know, we can definitely address that on the call. But, you know, we typically see a fair amount of deferral onto the balance sheet in these types of transactions, particularly when there are services involved and it's a solution sale.

And so, you'll defer a fairly, you know, a higher percentage onto the balance sheet. It's typical very high margin when it comes back off the balance sheet later, but that's part of the purchase accounting in that closed process.

BEN REITZES: OK. And then just a quick follow-up, did you guys use domestic cash for this and is there any potential color around, you know, cash policy that, you know, you'd like to update us with, with regard to acquisitions, you know, in the future and how they may be funded? Is there – if you do future deals where you need to take out debt?

DAVE JOHNSON: I don't think we – this is Dave Johnson – we don't look at acquisitions specifically. We look at the use of all capital. And, of course, with that, we look at efficient use of cash, turn that in commercial paper and we'll do what's appropriate for this when this closes in the second quarter.

BEN REITZES: Thank you very much.

DAVE JOHNSON: You're welcome.

OPERATOR: We'll take our next question from Keith Bachman with Bank of Montreal.

KEITH BACHMAN: Hi, thanks very much. I wanted to ask a follow-up question, I think VDI is an important market, but it surprises me a little bit that you're, by this transaction, going back or increasing your commodity hardware exposure.

So, I wanted to ask a couple of follow-up questions; number one, when you talk about double digit margins, I just wondered for Wyse, I just want to clarify that stand-alone Wyse, not the other elements at Dell that you may be able to sell, such as servers and support, because those are, at least in my view, different transactions, you may or may not get that business.

Secondly, it's just – could you go back and speak to build versus buy because it seems to me that Dell would have had a fairly easy time replicating the thin clients from Wyse.

And then third, just talk about the maintenance or ongoing revenue streams that are associated with Wyse sales, whether its maintenance or software upgrades. Thank you.

DAVE JOHNSON: I just want to know, is that a six-pack question?

I'll try to answer some of them. At least if I forget one, let me come back. Relative to the margins, I was talking about double digit stand-alone margins.

Relative to your comment on product mix, we expect that the services, software and enterprise components of this will be larger than the thin client itself. So, from a mix perspective, which I think is what was at the heart of your question, this will actually drive more of the solution-centric part of the Dell portfolio relative to the thin client software.

Remember, we're selling an entire solution. Going to the customer, you look at their environment and you assess which pieces of their environment are more appropriately served by traditional desktop or mobile devices that have capability at the edge, versus where this unique case is where you want to defer that compute and storage and management to a central location.

Well, by definition now, the storage and networking and compute that would have been at the end point, is part of total solution. You just physically put that either in the datacenter or in the cloud.

So, again, in aggregate, that's how this – the customers will implement the solutions and it's our responsibility to help them do that the most effective and efficient way. So, that's where we're really driving this towards that question.

Getting to your point about internal versus external, a comment on this that this is one of the industries when you look at it where Wyse and one other competitor basically had almost 50 percent of the market and then it's a tremendous drop off to the rest of the players, none greater than 10 percent.

And so, the combination of Dell with Wyse will put us in a very dramatic number one – not dramatic, but clearly a number one market position. And so, there's certain value, as you know, of being a significant player in that kind of an industry situation.

KEITH BACHMAN: OK, thanks for taking the question.

JEFF CLARKE: Let me add to what Dave said, because one of the other elements of the question is Dell versus buy, could we have done this organically?

And our view is, I think, very straightforward. This is a company that has 31 years of experience. They have the intellectual property, they have the software and as Dave mentioned earlier, 150 R&D engineers which 140 are in software.

We think the stickiness and the solution in the stack that I showed on one of the earlier slides is the software stack that brings together the edge device, the management software that manages that, that sits into the cloud or sits into the datacenter, and the ability to build that software from essentially ground zero to being able to acquire those capabilities and that experience and the technology with it, puts in a, I think, a leadership position and in a position as we integrate this with

Steve [Schuckenbrock's] and Brad [Anderson]'s organizations and build out workloads and solutions to move quite quickly in the marketplace much quicker than we could have done it on our own.

ROB WILLIAMS: Great, thanks, Jeff and thanks, Keith. Next question.

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

SHANNON CROSS: Thank you very much. I had sort of a question along the lines of the R&D assets and the software assets, just in terms of the ability to leverage them across Dell's product platform.

And actually, specifically, I noticed than one of your newer products is where the T10 is on an ARM based platform, so what type of ARM engineers are you bringing to Dell?

JEFF CLARKE: What type of …?

SHANNON CROSS: Well, I mean, what – I'm just curious about ARM technology that's being – will this further Dell's ARM, I guess, initiatives?

JEFF CLARKE: Well, the way that I'd like to answer that question is simply around we're going to build client devices, both desktops, notebooks, tablets, smart phones, thin clients, zero clients at the appropriate hardware architecture. That will be a combination of x86 and ARM.

Dell itself has a pretty strong capability around ARM processer architecture. And as we mentioned, there's only a dozen or so hardware engineers inside Wyse technology that work on the hardware. So, us getting hardware competence or assets around the design of ARM from Wyse, that's not the nature of this acquisition, it's the 140 software engineers that were key.

The hardware architects on the Dell side that are working on ARM implementation across the plethora of devices that I mentioned earlier would still be the core ARM architects and the knowledge based for our ARM implementations.

The real question maybe lying in the fact, will we continue to support thin clients based on ARM architecture and this thin OS? Absolutely. We believe that's part of the value proposition that Wyse has had in the marketplace today. It's allowed them to move quite quickly in implementing new products to the marketplace, providing a performance advantage or a lower cost option because they've done a great job in designing for cost and providing comparable features in the marketplace that others do in a more costly way.

And on top of that, they innovate the platform, as I mentioned earlier, around the management stack, and then the promise around the software engineer being able to take things like stratus and pocket cloud and being able to build that around those platforms and integrate Dell's services around that with the rest of our Dell client assets, we think is an opportunity for us to differentiate with this acquisition.

SHANNON CROSS: OK, great. That was helpful.

And then, I don't know if Rob – I don't know who wants to take this, but just curious, you've made two acquisitions in a relatively short period of time, how are you feeling about your ability to sort of absorb more or, you know, be, you know, how aggressive do you think you'll be over the next couple of quarters or has this kind of filled you up in the near term?

ROB WILLIAMS: Yes, I think, I'll let Dave take that one. That's kind of an integration question.

DAVE JOHNSON: We have spent the time, energy, management attention and resources to build a very comprehensive and capable integration organization. We have in every function, dedicated people whose sole job is support the acquired company and help them excel.

That provides great value to us because the consistency and continuity of that is irreplaceable. And so, we've built the organizational capability to rarely scale to support these types of acquisitions.

And again, an acquisition leverages all the core capability that the company has built, whether that be, you know, the brand and the distribution and our sales force, they're excellent compliments to our existing assets to get a higher leverage out of them on behalf of the customer and the shareholder.

So, again, we have been broadly building out the people. We dedicate leaders to every one of these acquisitions to assist the acquired CEO. So, for example, Tarkan has a dedicated senior Dell leader and this is actually their third acquisition, talking about the point of continuity.

And so, we believe we have built out what is a world class capability that's scalable to integrate.

ROB WILLIAMS: Thanks, Shannon. Regina, let's take one more question.

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

BRIAN MARSHALL: Hey, thanks, guys. You know, by my calculation, I would estimate that the non-thin client revenue here associated with this transaction is approaching $100 million annually. I was wondering if you could perhaps give a little more granularity around the software/service component of that?

And then, secondarily, was wondering if you could comment on, you know, how this sort of positions yourself with Citrix and the VMware's of the word, i.e. you know, there's not going to be any attempts to (inaudible) features and functionality you get with some of those software partners. Thank you.

ROB WILLIAMS: I'll take the first part of the question on the revenue split and then I'll turn it over to Jeff or Dave or potentially Tarkan to comment on the last piece of this.

But, you know, we want to be careful not to get into too much on product level splits on the revenue right now. We really need to really obviously get through the close process, finish the purchase accounting and sort through that.

But, you know, again, the majority is hardware, as your number would clearly imply.

DAVE JOHNSON: From a historical stand-alone Wyse perspective.

ROB WILLIAMS: Yes. Now, you know, looking at in the future, that can obviously change and so, Dave, I don't know if you want to comment on that.

DAVE JOHNSON: Yes. I'm not sure I understand where your 100 number calculation is coming from. But, historically if you look at Wyse standalone, the majority of their business clearly was hardware-centric.

They have a lot of software, they do sell software but, of course, the principal use of their software, as Jeff already articulated, is embedded in the differentiation of their hardware, which allows them to get high margins on their hardware.

And that's true across the whole industry, more and more software being sold exclusively as software is not the case. You're finding software being embedded in appliances, which are quote/unquote "hardware" and of course, software that's being sold as a service through the cloud.

So, there's an inflection point happening in the entire industry where software is becoming much more pervasive in everything that you do and this is no exception to that at all.

That last part of your question is, we have strong relationships with the key players in thin client computing and virtualization. Not only are we going to continue those partnerships, we're going to grow those and foster even deeper relationships.

I know Tarkan can add specifically around how he's interacting with Microsoft, VMware and Citrix.

JEFF CLARKE: Tarkan …

TARKAN MANER: Go ahead, Jeff.

JEFF CLARKE: I was going to say, would you please comment on that?

TARKAN MANER: Sure. So, as you all know – this is Tarkan again – as you all know, we are pretty close partners with Microsoft, we do a lot of work with VMware, with Citrix. As these providers, you know, provide desktop virtualization methodology and technology between the datacenter and end use computing platforms.

So, we add to that value and the partner heavily with them and obviously that's going to continue and the opportunity now, obviously as Jeff said earlier, now we're bringing the datacenter, the network and end user platform all in an integrated way to our customers for more value. So, we're going to have more opportunities to partner with Microsoft, with VMware, with Citrix and others in that space.

And also, one other piece to add, we provide some of the software we provide is differentiated in the marketplace, is the leader in this space also from the cloud, both on the infrastructure management side from the cloud, with a product called Wyse Stratus. So, many of you on the phone are using today, Wyse pocket cloud, the market leading product for content management from the cloud on any mobile device and also from your web browser, connecting your apps and content inside the content voice data video from your choice of your cloud, private or public.

So, these are all opportunities for us to do more with Microsoft, with VMware and Citrix as they move forward. And that's a big differentiator.

JEFF CLARKE: Thanks, Tarkan.

ROB WILLIAMS: Great, thanks, Tarkan, and thanks to everyone for joining us today. We look forward to discussing this transaction and our strategy in greater detail, clearly after the close, but also at the analyst meeting here in Austin on June 12th and 13th.

And so with that, I'll turn it back to Regina. Thanks.

OPERATOR: This concludes today's conference call. We appreciate your participation. You may disconnect at this time.

END OF CALL