

Dell Technologies

**December 3, 2019
1:50 PM EST**

- Aaron Rakers: Perfect, so why don't we go ahead and get started? I'm Aaron Rakers, I'm the IT Hardware Networking and Semiconductor analyst here at Wells. And excited to have Tom Burns join us today. You know, Tom, you're the Senior Vice President. I think I'm going to get this all right; networking and also responsible for the solution side which would include HCI, your hyper converge infrastructure and converge infrastructure and so on and so forth.
- Tom Burns: Correct.
- Aaron Rakers: I probably didn't get that right but why don't you go ahead and maybe just to start the conversation give us a little bit of a review of your responsibilities at Dell and some background?
- Tom Burns: Sure. Sure. So, I -- networking is relatively clear. I drive the networking strategy, program management and execution on a global basis for Dell EMC networking. On the solutions side you did nail most of it. I'm responsible for the HCI and CI portfolio; so the former VCE VxBlock but now also our PowerOne portfolio, our VxRail and our relationships with what we call our open HCI teams and then I'm also responsible for what we call reference designs or ready solutions for both the service provider and the enterprise space for high value workloads. So that really brings together compute, storage, networking, frequently our VMware strategically aligned business as well into these reference designs for customers to help through this IT transformation, digital journey that they're on.
- Aaron Rakers: Okay, that's a lot. So we've got a lot to talk about. So let's maybe start on the networking side. We definitely want to get into the converge infrastructure and HCI piece of the portfolio as well. But networking in general, Dell's open networking initiatives, you know, it's an important piece of the story but I'd say it's under appreciated from an investor perspective. So, you know, maybe you can just help us think about what the positioning is of Dell's networking strategy, what is open networking, the initiative that you have and what am I to be looking for from Dell as far as kind of playing into maybe some of the disruptive trends that you might see in the networking space right now?

Tom Burns: No, it's a great question. So, yes, Dell EMC was the pioneer of what we call open networking which was really recognizing that the hardware side is really commoditizing with the advancement of merchant silicon versus proprietary silicon; happening at a much rapid pace. That hardware capability was really commoditizing, you know, available for multiple suppliers and then you had software providers that were really looking at the network operating software or NOS in a much different perspective. So, we started to support not only our own NOS but also a third-party NOS and we became the only networking player in the industry really that was able to support three or four different network operating software environments. And the reason that's important is that it gives customers more flexibility and agility to run the NOS that they think is most required for the particular area of the network conversion and it's what called Gartner out in 2014, I think it was, calling Dell the most innovative and disrupting networking vendor in the industry.

You know, since that time, we've had a very strong focus also on SONiC, software for open networking in the Cloud, which is a Microsoft Azure project contributing an OpenSource NOS into OCP and through GitHub and Dell EMC has been a major supporter of that and been one of the first companies to actually announce support of SONiC on our hardware giving customers, again, that flexibility and a choice.

And the reason this is important is that as we look at the overall Dell Technologies, Core Cloud Edge capabilities, we believe that the network of the traditional side of proprietary stack, even in software and hardware, is not going to give customers that flexibility and agility they need to manage the fabric across multiple points of presence. And I think that when you look at how that fits into the broader Dell, lets think about how Michael started personal computing and really consumer and enterprise computing kind of disrupting some of the traditional players around the PC. And then if you think some 20 to 25 years ago, the disruption occurred between the mainframe and the x86. All of this is beginning to happen in the networking spaces as well and I think if it's a ten-year journey, maybe we're in Year 4; so it's a bit of time but right now we're very focused in continuing to disrupt. If you take what we have in the underlay at Dell EMC, really focused on layer two, layer three datacenter, combined with the VMware assets of NSX, NSX-T, now also VeloCloud and Avi we believe we can continue to disrupt both in the core datacenter but now also on the edge and kind of work our way towards the middle if that kind of makes sense?

Aaron Rakers: Yeah, maybe I should have started with this but just from my perspective looking at Dell, when you think about what Dell reports from a server plus networking piece of the portfolio; how big is networking for Dell and is there any frame of how I should think about that business kind of growing right now?

Tom Burns: Yeah, so we don't really discuss the numbers overall in comparison to the overall server number, it's a relatively small number and if you look at Dell, [overall] our total market share is small but if you look at the last four to six quarters in the area of datacenter layer two, layer three switching, we've been growing well above market. That's where our areas of focus are. If you look at the broader Dell Technologies around layer two, layer three datacenter, network virtualization, network security and software defined WAN, those are not only the fastest growing CAGR's over the next three to five years as far as revenues, it's also the fastest area and the largest portion of gross margin dollars. And even in that space, particularly in network virtualization, network security and SD-WAN

you don't have an incumbent supplier or vendor that has a dominant share and so it is a real true opportunity for disruption with a very different approach.

Aaron Rakers: Yep, yep. And one of the linkages between the portfolio obviously is the VMware piece of the story, right, with your ability. I think you did some things at VMworld, you know, talk about what you're doing as far as the integration between VMware and how their strategy plays into, if you mentioned, you know, NSX, how that integration currently stands as far as your business to VMware?

Tom Burns: Right. So there's really two areas that we announced at VMworld in August. The first is we OEM developed Cloud solution. So we add the Dell EMC SD-WAN Edge solution powered by VMware. We think this is a tremendous opportunity to capitalize and really expand developed Cloud presence on a global basis with Dell's global supply chain, support and services capability.

The second area is we introduced a product that was co-developed between Dell EMC and VMware called the SmartFabric Director. What the SmartFabric Director does is it takes, in essence, the capability to establish a fabric within a datacenter and reduces that time by over 90%. If you take a traditional switch and you want to connect the fabric even with some of our competitors' products, it's about 140 lines of CLI per switch to configure it to become a fabric.

In the case of the SmartFabric Director, we reduced that significantly creating a very tight integration between the underlay and NSX simplifying time to bring the switch up, establishing the fabric and then kind of the Day 1 operations for the networking team.

Aaron Rakers: And I think at VMworld, it was commented that NSX had like 13,000 plus customers, I think was a comment that I saw or read, and NSX grew license of bookings this last quarter, 50%-plus. How does that translate into what you're seeing in your business as far as that relationship?

Tom Burns: We're continuing to see a very strong collaboration between the two sales teams and the go-to-market motion particularly when we look at the SmartFabric Director. When we announced that, we really saw an increased collaboration and more joint customer presentations than we had seen in the past. I mean, NSX-T and NSX continues to remain agnostic to the underlay. We really see an opportunity for disruption here. So, I think that that's going to increase quite significantly. And on the SD-WAN side, the pipeline from a Dell EMC perspective is growing quite well and quite rapidly and I see a lot of similarities on what we've done with the HCI VxRail business across Dell EMC that we can capitalize on the SD-WAN business.

Aaron Rakers: You stole my question there, because I was --

Tom Burns: I tried to --

Aaron Rakers: Exactly. So, I -- you've made that comment that SD-WAN, you know, is really what you see in terms of the growth trajectory that you've seen on the VxRail side. And so that motion right now today, when do -- how long does it take to see that become the size of VxRail business?

Tom Burns: Well, I think it's a period of time. If you look at the overall TAM for SD-WAN, I'm guestimating here now that I think it's around \$700 million or \$800 million but projected to grow to several billion over the next couple of years. A very similar trend that we saw in HCI. The VxRail business we're now, I think, on Year 3 or Year 4 and we continue to see very accelerated growth. So, I think we're going to see probably a three to five-year trajectory of a pretty significant business between what VMware VeloCloud does on their own and then what Dell EMC is capable of establishing as well.

Aaron Rakers: Perfect. So, let's maybe jump over to the HCI and the CI piece of the business. Maybe for the audience, why don't you just start by giving a quick overview, what exactly is part of that portfolio for Dell and the growth profile of that?

Tom Burns: On the HCI side we basically have three products but the largest product and the largest seller and the fastest growing of all is the VxRail which is a combination of Dell EMC, PowerEdge portfolio with vSAN coming from VMware combined with some Dell EMC and joint software, what we call the VxRail manager. Really tightly integrating for the customer experience and the long-term benefit of the customer in appliance-like experience in HCI. We also continue to have the XC series which is our relationship with Nutanix and we have another slightly different OS that operates in different use-cases called Flex OS and we call that Flex OS Manager and FlexRack. So those are the three, the largest by far, being the VxRail which grew roughly 82% year-over-year in Q3. If you look at that market in and of itself, I believe it's about an \$8.9 billion market per IDC and we have roughly around 29.2% share and we project that we'll continue to grow above market if we look forward.

On the CI portfolio, this is quite different. This is kind of a traditional three-tier architecture across server storage and the network fabric tightly integrated for customer experience. The origination, which was about ten years ago, came from the formation of VCE with the VxBlock which continues to be our primary part of our portfolio today and doing well in the market and we're continuing to invest. But recently we announced the PowerOne solution which is a full Dell EMC stack that's fully and tightly integrated; both for what we call VMware referenced architectures but we've created what we call this autonomous infrastructure.

What we've done is we've brought together, in essence, a controller that eliminates, again, a lot of the build requirements when customers want to look at a three-tier architecture and really reduces the time to get to operation from that perspective. And we announced that two weeks ago. It's a full RTS about a week and we've got a nice pipeline growing in that particular area.

Aaron Rakers: And talk about the HCI business a little bit more. You mentioned the couple of pieces of the VxRail obviously being the largest one but how does it work if you -- why would you still be having a Nutanix business, the [XC] business, how do you position that in the market?

Tom Burns: Well, a couple of things there. You know, we will always lead with VxRail. At the same time, we respect customers choice and prior to the acquisition and merger with EMC, Dell had a very strong relationship with Nutanix. A very large install base and so we're continuing to respect and honor our customers that we won during that period of time and I'd say the rest of it is somewhat opportunistic. For sure, if whatever happens at a

customer account, whether it's a battle between VxRail and Nutanix, and a customer picks Nutanix, we certainly still want Power Edge to be the underlying infrastructure. So that's why we continue to have that relationship; although it is declining, while the VxRail business is growing quite rapidly.

Aaron Rakers: Okay. You know, when Dell acquired EMC, there was a lot of commentary around revenue synergies and the ability to collaborate at the portfolio level and drive those revenue synergies. Are there things in areas where you look forward and say, we still have more work to do on driving more for your business revenue synergies between the businesses, the portfolio that is the entire Dell Technologies?

Tom Burns: Certainly at the time of the original merger and acquisition, I think the idea of revenue synergies was around how do we cross-sell each other's products where we may not have a presence, you know, in one line of business or another. I think that that went well. But in the last 12 to 18 months, there's been a lot more focus on how do we create synergies from an innovation and kind of a better together capability to help our customers, again, through this IT transformation.

And there's a few areas that we've been working on. And let me tell you, it's a very tight relationship between Jeff Clarke, now the Chief Operating Officer of Dell Technologies and Pat Gelsinger, the CEO of VMware with the joint product groups are meeting at least quarterly at the Jeff and Pat level innovating, not just in the infrastructure solutions group, but also in the client area as well.

A couple of areas that we've been working on, and we've got to continue to drive is first the Dell Technologies Cloud platform which is really taking the best of Dell EMC infrastructure and combining it with the virtualization management orchestration and kind of the move towards Cloud ready workloads with Pivotal and VMware. That was announced about a year ago with our first set of products being announced at VMworld. We've got the NSX-T and the SmartFabric Director that we've been innovating around. We have a long roadmap over the next 12, 18, 24 months to continue to work on the SmartFabric Director including making it agnostic to the NOS.

So it's original release is only, today, connected to our OS10 which is the NOS within Dell EMC but in the future, because of the gNMI protocol that was built in the architecture itself, it would be agnostic to such things such as SONiC which you might see us supporting here in the near future.

Obviously the SD-WAN that we talked about, other areas of collaboration is what we call [Unified Workspace], which is really taking VMware's workspace application capabilities around multiple device management and security looking to see how Carbon Black might build into that in the future. That combined with our Secureworks capability from a security monitoring and cyber attack capability and then obviously tagging onto that, Dell's client business and services capability on a worldwide basis.

So, this is just two or three areas where we're trying to drive innovation, which we believe will end up with across, you know, the Dell Technologies portfolio, a set of synergies from your standpoint from revenue growth.

Aaron Rakers: You've got a lot of work on your plate. So I want to go back to hyper converge and then

we'll open it up for the audience. But, you know, one of the common questions I get around the hyper converge market is you mentioned earlier, \$8 billion plus of addressable market opportunity but there's always been this debate of does hyper converged really disrupt or replace the traditional network storage environment or is there still two separate kind of architectural pieces of the deployment model for traditional storage and where hyper converged plays -- anything --

Tom Burns: It might be a subject that we discuss every once in a while inside of Dell EMC for sure. But we believe that as time evolves, more of the HCI type of architecture may capture more of what I'd say is traditional storage. As an example, originally the HCI portfolio looked for rather simple applications and things such as VDI and certain others like that. We just announced a full support for SAP. So you're starting to see it move into higher value workloads.

That being said, higher value workloads such as AI and ML, still need a lot of traditional storage and a significant amount of compute depending upon Core, Edge or Cloud. And so I think that they'll continue to be some workloads that will continue to require or customers will prefer traditional storage. And I think that's important is that customer preference is very important and we continue to respect. And I think we have opportunities in storage and traditional storage as well to help consolidate in the market. If you look at Dell's mature businesses like client, servers and traditional storage, we have the opportunity, while that market may not be growing as fast as HCI, we think that we have a competitive advantage and capability from a global basis to help consolidate those markets and continue to build share.

Aaron Rakers: And there's been some discussion around composable infrastructure versus HCI in the market, what is that -- how do you see that?

Tom Burns: Yeah, I mean composable infrastructure really creates the server storage or compute storage in the networking fabric and creates a platform which enables it to act almost like a service offering, right? So it takes that simplicity to a different level so that customers are spending less time managing silos of boxes and more time looking northbound and looking at the applications and use cases and their users themselves.

If you look at VxRail and the capability that we have with SmartFabric services where you can tightly integrate VxRail with Dell EMC networking, literally with the click of the finger, no CLI, no Cisco CCIE necessary, everything managed by VxRail manager. Everything from the core all the way out to the edge type of environment; very simple, creating that kind of composable. We've also started using the term autonomous and that's what we announced with PowerOne and that really, again, looks to simplify the management of these three silos across different element management and help automate based upon customers output requirements, literally thousands of steps in the build of the infrastructure to really give that capability to have services up and running very, very fast.

Aaron Rakers: Why don't we pause there to see if there's any questions from the audience.

Tom Burns: Andy, how did I know it would be you? Pardon? In hybrid Cloud; we see a strong opportunity. In fact, if you look at the Dell Technologies Cloud strategy that we announced at Dell Technologies World last year, you may have been there Andy, in fact,

it really states that most enterprises, and as I also represent the service provider side of Dell EMC and service providers are going to move to a multi-hybrid Cloud; combination of both public and private. We don't believe the private Cloud or private capabilities are going to go away completely and that customers will have a combination of both and the availability through our VMware assets to actually move applications and workloads across both public and hybrid Cloud. So, we're not afraid of hybrid Cloud, we're actually endorsing it. Our Dell Technologies Cloud platform and what we call the Dimension project and its first release coming out here in August that's based upon the VxRail, we see a tremendous opportunity there.

Aaron Rakers: Any other questions from the audience? Let me ask you, final couple minutes, you know, I know it's not necessarily your business but my colleague that covers VMware has talked a lot about recently, VMware support for Kubernetes and how that really opens up possibly opportunities. What is your opinion on that? What does that mean for the relationship that you obviously -- the portfolio you have kind of integrated with VMware. What does Kubernetes mean to you?

Tom Burns: Well, if you look at it again from the VMware perspective or Dell Technologies perspective, some of the investments and acquisitions VMware has made both in Bitnami and closing here with Pivotal here I think before the end of the fiscal year which Pat announced at the earnings call. You really look at a set of assets that is not better than, you know, capability of setup, run and manage applications in a container. And the benefit that VMware has is that because of its extremely large enterprise install base, I think it's something like 500,000 customers on a global basis, we're going to bring that kind of VMware experience to the Kubernetes environment fully automating that into vSphere and that's the project Pacific that Pat announced at VMworld both in San Francisco and in Barcelona.

And then from a Dell EMC perspective, we're tightly integrated because particularly on the compute perspective and the networking perspective, we're open, we're disaggregated, we're non-proprietary even though more and more of our storage portfolio, in the HCI portfolio, is becoming software defined. So we believe that the infrastructure, the secure supply chain, the capabilities from the service and support standpoint gives Dell EMC a very strong capability to be that physical infrastructure for the Kubernetes environment.

Aaron Rakers: Okay. Any questions from the audience? We'll go ahead and -- is there anything that I didn't ask that I should have asked, I guess is the final kind of question as -- because the portfolio, again, that you're running, that you're managing, seems like it's really at the fore -- you know, the cross points of how the true overall Dell Technologies kind of motion works and so is there anything we didn't touch on that I should be thinking about from a product portfolio perspective as you look out over the next 12, 18 months, whatever it might be?

Tom Burns: Well, I think one opportunity that we have in Dell Technologies, and in Dell EMC is the service provider and Telco space. So frequently we talk about our enterprise customers and so forth. We've been meeting and setting up this team over the last several years. We worked very closely with the VMware team but we see a huge opportunity in the network transformation that's occurring from Core all the way out to the virtual radio access network for Dell EMC, Dell Technologies. A lot of proprietary two-tier architecture getting replaced by x86 and we have the term, you know, edge computing

and I know some of our competitors see it as a specific product. We think we have a multitude of products across computer, networking, storage, IoT and so forth that gives us a tremendous opportunity and it's a very strong focus from Michael and Pat all the way through the organization. So I think you'll see Dell EMC, Dell Technologies spending a lot of its time and efforts also focusing on this opportunity which is very transformational and as I said, very resonate with what we see in the multi-hybrid Cloud and enterprise as well.

Aaron Rakers: Perfect. I think we'll wrap it up there. I appreciate you taking the time.

Tom Burns: Thank you. Appreciate it.

Aaron Rakers: Great.