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## 2nd UPDATE: VMware 2Q Net Soars, Beating Views; Forecast Raised

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(Adds comments from executives, analyst; updates after-hours share price).  
By Jeanette Borzo of DOW JONES NEWSWIRES

SAN FRANCISCO (Dow Jones)--VMware Inc.'s (VMW) second-quarter profit more than doubled, beating analysts' estimates, as sales and margins rose sharply.

The company lifted its full-year revenue forecast again, this time to \$2.73 billion to \$2.8 billion from \$2.63 billion to \$2.73 billion. It also projected \$680 million to \$705 million for the third quarter, ahead of the \$672 million average estimate of analysts polled by Thomson Reuters.

Shares were up 4.3% at \$75.50 in recent after-hours trading.

VMware dominates the market for virtualization software, which makes data centers more efficient by running multiple computers' operations on a single server. The technology is a priority for many companies, which are resuming IT spending after delaying purchases during last year's downturn.

"The whole virtualization story is still pretty strong," said **Laxmi Poruri, a senior analyst at Primary Global Research**. "Server virtualization saves you money on space and on power consumption. In this tenuous market, that is going to be huge."

VMware, majority-owned by EMC Corp. (EMC), posted a profit of \$74.5 million, or 18 cents a share, up from \$32.5 million, or 8 cents a share, a year earlier. Excluding items such as stock-based compensation and tax adjustments, profit rose to 34 cents from 20 cents. Analysts most recently forecast 32 cents.

Revenue jumped 48% to \$673.9 million, topping the company's upbeat April estimate of \$635 million to \$665 million.

Calling it a "blow out" quarter, Morgan Stanley Analyst Adam Holt said strong server sales, a growing push for cloud computing and a license-renewal cycle all helped to push up VMware's revenue and deferred revenue. Estimates had expected the combined total to be between \$690 to \$700 million, he said. But they came in at \$767.3 million.

Chief Financial Officer Mark S. Peek said server sales aren't expected to be as strong next year, but added "We are not going to give 2011 guidance at this time."

Operating margin soared to 15% from 8.3%.

Revenue from services, which include subscriptions, consulting and support, jumped 54% while license revenue was up 42%. Services have eclipsed licensing as the bigger revenue generator in recent quarters.

VMware didn't break out results for desktop virtualization, a growing product category that manages desktop applications and operating systems centrally. But Chief Operating Officer Tod Nielsen said that upgrades to the Windows 7 operating system and growth in the number of new devices connected to corporate networks such as iPads from Apple Inc. (AAPL) are increasing demand for the technology.

"No tipping point is emerging as the accelerator to virtual-desktop infrastructure adoption," Nielsen said. "But we are optimistic on the opportunity."

More and more, Nielsen added, VMware will focus on customer requests for help with managing users rather than devices.

"Increasingly, we are allowing our customers to equip employees with functionality, and to map that [functionality] to whatever device they are using," echoed Paul Maritz, VMware president and chief executive officer. "You can expect some very interesting announcements from us down the road."

Peek also said VMware added 1,100 employees for a 8,200 total in the first half of the year--about half of them through acquisitions--and it hopes to hire at a similar rate in the rest of the year.

Third-quarter business in Europe, Peek added, is currently "flat to slightly down."

-By Jeanette Borzo, Dow Jones Newswires; 415 765 8230; jeanette.borzo@dowjones.com

(Matt Jarzemsky contributed to this article).