

VMware Q4 Results And Q1 Sales Outlook Shatter Expectations

By J. BONASIA, INVESTOR'S BUSINESS DAILY Posted 01/25/2010 06:38 PM ET

VMware (VMW) posted fourth-quarter results that powered past analyst estimates, as more companies are using its virtualization software in a bid to cut their computing costs.

The leading maker of software that creates multiple "virtual" machines in a single server late Monday also forecast revenue for the current quarter far above analyst views. Its shares were up more than 17% after hours.

The company said its revenue soared 18% from the year-ago quarter to \$608.2 million. Per-share profit minus items fell 14% to 31 cents. But analysts polled by Thomson Reuters had expected profit of 26 cents on sales of \$553.3 million.

For the first quarter, VMware CEO Paul Maritz said the company expects sales of \$580 million to \$600 million, up 23% to 28% from the year-earlier quarter. Analysts had expected \$529.1 million.

The strong forecast shows managers are "obviously very confident" about growth based on some deals already in the sales pipeline, says **Unni Narayanan, an analyst with Primary Global Research.**

"We all know the virtualization market is growing through the roof, but such a strong quarter was definitely a surprise," he said.

Palo Alto, Calif.-based VMware is the market leader in virtualization software, a key component in the growing trend for cloud computing. The software lets a company's tech staff run several workloads on the same computer. This ideally makes data centers more flexible and less costly. Cloud computing users access their data and computing resources via the Internet.

VMware's shares hit an 18-month high above 47 on Jan. 14, but had fallen 12% since. Storage company **EMC** (EMC) owns a majority stake.

VMware's new vSphere line of software, which manages data centers for cloud computing, boosted the results, Maritz said.

"We intend to be one of the major beneficiaries of the coming shift to new computing architectures that enable greater efficiency both inside and outside the data center," Maritz said on a conference call with analysts. "We believe our industry is in the midst of a major shift" to cloud computing.

New license revenue, an indicator of future growth, fell 3% to \$304.2 million. But that's far above the \$257 million expected by Robert Baird analyst Jayson Noland. And services revenue jumped 52% to \$303 million.

Recent checks with tech resellers show that an economic recovery will likely first accrue to "hardware and hardware-adjacent categories," Noland said. "The No. 1 demand is for data center technologies around servers and storage."

VMware provides a key piece of software for data centers, so it should benefit from the expected uptick in spending, Noland says.

"Whether it's a new server from **Dell** (DELL), **Hewlett-Packard** (HPQ) or **IBM** (IBM), it's going to sit on VMware's platform (for virtualization)," Noland said. He rates the stock as neutral, based on its current high valuation.



VMware's shares shot up after hours on strong fourth-quarter results and first-quarter guidance. As the sign at its trade booth indicates, VMware

Microsoft (MSFT) competes with its own virtualization product called HyperV. But VMware is dominant among large companies, says Laura Lederman, an analyst with William Blair & Co. Microsoft is "much more likely to gain share and customers in the middle market where customers are less sophisticated," Lederman wrote in a recent research note. She rates the stock as outperform, or buy.

VMware benefited from pent-up demand for software, after tech budgets remained guarded through much of 2009, Lederman says. She also says chief information officers seem to be giving virtualization a high priority. "At a CIO forum ... a few months ago, virtualization was the No. 1 priority ...," she wrote.

On Jan. 12, VMware said it would buy e-mail software firm Zimbra from **Yahoo** (YHOO) for an undisclosed sum. The open-source collaboration product sets VMware up to compete with Microsoft SharePoint and IBM Lotus Notes.