

Extreme Networks

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Interviewee: People are still trying to make that decision. Do we go back in the fall, or how do we go back in the fall? Nonetheless, while campus is empty, it's a great time to do a network upgrade. We're seeing customers moving forward with their capital spends just to take advantage of the fact that it's an easier time for them to manage a network upgrade, for example.

Healthcare is another vertical, strong, 10-plus percent vertical for us. Hospitals, obviously, have been very busy. They're moving forward with projects. With our press release, we announced a state-of-the-art marquee facility that's going up. It was a great win for us in the middle of the quarter.

That would be an example of what we're seeing globally. Healthcare organizations and hospitals globally, they continue to be busy. They continue to be running and spending from the capital perspective.

For us, sports and entertainment, that's obviously an area that's going to be hit. We saw several purchase orders halted for casinos, stadiums, hotels, etc. Here, we're in fluid discussions. These are just pushed out to the right. These are customers that are not going to be canceling the networking upgrade that they have. It's critical infrastructure. They'll continue.

In the retail sector, obviously, stores are shuttered. That has a big impact. We call it retail, transportation, logistics. A lot of our business in that space is with the transportation/logistics side, like the FedEx's of the world. We had a win with one of the largest retailers in the world, a new logo win for us, to be part of their fulfillment centers, which is where we have a lot of business.

Again, the stores are paused. We saw a lot of orders on hold, waiting for how people are going to return to the new normal. From a shopping perspective, that we don't have a lot of expectation for that to snap back. However, on this fulfillment side, we continue to do well.

Then we do have service provider business. That might be, call it, a 10 percent, depending on the ebbs and flows. That business has been strong, frankly. Service provider networks have been busy in a very different way. We continue to see orders coming from that.

I mentioned government and [inaudible] , but the federal business is also continuing to move forward. We have a couple three-letter agencies that have some pretty interesting projects coming up that we are in the middle of. We haven't seen that slow down.

To your point, it's somewhat of a mixed environment out there as far as different enterprise vertical segments and how they're impacted with puts and takes. Net-net, it has taken our forecast down. We want to be conservative with how we're going to guide here.

Samik Chatterjee: One of the interesting things that you mentioned yesterday on the call though is that April auto trends are coming in higher than January, which are comparable because they're both first month of the quarter, which is typically your slower month in terms of auto trends. I found that interesting.

What are your thoughts about how sustainable that is? As enterprises figure out what they need toward, is that really driving the increase, or is this more just pent-up demand from not having spent in March, for example? What are your thoughts about the sustainability of that auto trend?

Interviewee: It's a combination of both. Depending on where you are in the world, people are at different phases of getting back to work. I will say, overall, the dialogue that we're having today is about reentry and how people are coming back. That whole conversation has shifted.

In Germany, for example, where we have overweighted presence from an EMEA and rest of world perspective, they started going back to work in manufacturing, which is obviously a really important segment of their economy. Volkswagen, for example, implemented new rules, new policies. They're going forward. We saw continued buying from a Volkswagen.

We did see purchases that had been paused. It built up some backlog at the end of the quarter that were released in April. There was some delay. It's a combination of both, Samik. When all of this happened, this also coincided with me being much more involved with our selling and go-to-market organization from a leadership perspective.

We've just gotten very, very detailed in our inspection of the business, our inspection of the pipeline, and our level of engagement. Interestingly, what the virtual environment has given us

and it's given executive leadership, as far as executive engagement, more opportunities to engage with customers.

I just mentioned Volkswagen. Flying out to Wolfsburg, in Germany, for a meeting could be a two-day affair as opposed to a quick Zoom meeting, for example. The level of engagement, I would say, and our teams, how close we are to this business and driving it week to week, I'm giving us a lot of confidence in the business.

What I would say is we are seeing a natural linearity trend in the business for this quarter. Our internal forecast, we would expect to see high teens to 20 percent in that first month. We didn't know exactly what to expect, but we got that. Then we would expect in this May time frame to have a 30 percent month. We're in the middle of the month.

We have lots of visibility to our pipeline. We have a tool called Clarity that sits on top of sales force. It's an AI tool. It monitors activity. It's an activity management. Calls, emails, meetings that we're having. It's looking at the kinds of opportunities and where they are in different stages.

Our AI tool is right in line with our field. Historically, that tool has been below the field. That's also giving us some confidence from that standpoint.

Samik: Got it. Let's look at a bit longer term. The new normal that everyone's thinking of is as enterprises start to bring employees, back, 100 percent of the employees are not going to come back to the same offices. Either it's a work from home, increased proportion work from home, or it's an increased proportion working from more satellite offices.

When you look across the portfolio, how are you thinking about the impact on that when you take your [inaudible] ? Then, you take your wildest guess. How are you thinking about the longer-term impact of the new normal on your portfolio?

Interviewee: Samik, we couldn't agree more. I will say it's going to change the way we do business at Extreme. We found out we can be a lot more flexible. How we go back to our offices and how that footprint changes is definitely something that's top of mind for us at Extreme.

We believe that there is absolutely a new normal. It's going to be what we would call a distributed enterprise. It makes our timing for the cloud somewhat prescient. The fact that we have this cloud platform with 15 percent share of the cloud subscription for networking. We're behind Merakey.

We have a fourth gen cloud, high quality, that has unique capabilities and provides unique flexibility for customers. We feel like we're very well-positioned in cloud. The growth in our cloud right now has taken off.

At a high level, to answer your question about what is the future of the workplace look like, we agree. There is going to be more remote work, remote learning, etc. The question is, how secure of a connection you need to have. Do you want enterprise grade type connections?

That's what we have. That's what we have in the cloud with a single control plane to manage the entire network on campus, from the edge into the core. In June, we're going to bring our core switching. We've already brought our edge switching in.

Then, also, you can combine remote locations into that same cloud instance. You have visibility of, literally, all of your workers and how they're connected. We can provide different security elements and features and do it in a way that's very cost-effective. We can make it easy to do that.

At Extreme, if you look at how we want to differentiate, primarily, from SYSCO and HP, our biggest competitors, it's about ease of doing business and making it easy for them to deliver that networking experience. Think about this distributed environment where more and more people are working from remote locations.

We can provide that connectivity, a secure connectivity. Most importantly, everybody's focused on data. Networking is becoming more and more about data. In our cloud, we have capability to provide a huge wealth of data for however the enterprise wants to use the data to understand what's happening to the client experience.

That's something that I think is going to allow us to win more education business, government business, just across our enterprise portfolio. It's really going to be the cloud and then the data in the cloud that gives us the opportunity to win new business and provide a superior solution for enterprise customers.

Samik: Let me focus on one segment there. Let's start with WiFi. Coming into this year, there was this expectation that you would see a decent amount of an upgrade cycle into WiFi 6. Now, as you're having this discussion with customers, how much of a priority is that anymore?

Definitely, they have some kind of wireless infrastructure. Do they still see WiFi 6 as a priority, or

is it more about, as people mentioned, keeping the lights on and making sure that their employees can work from home and WiFi 6 pushes out in terms of priority?

Interviewee: WiFi 6 is more of a density solution. We have seen the uptake in our stadiums, our public venues, where you have high concentrations of lots of people. That has been the play for WiFi 6. I would agree with you. Today, we're seeing more AC business still being transacted.

That being said, in the campus environment, if it hasn't happened already, you'll have even more wireless connectivity than you had in the old normal. New normal is going to be more wireless. The need for wireless and more density to support more applications is going to be required.

By the way, you'll be using more video conferencing when you're on-prem as well. [laughs] If the world has gone more virtual and more video, we believe that will be the case when you're in the enterprise as well, driving more campus bandwidth requirements.

This is where, from a WiFi 6 perspective, we're not projecting a sharp uptick. We would just see a continuation of maybe a slower adoption curve than what the industry was thinking about initially.

Samik: Let me go back to the cloud subscriptions that you mentioned. You mentioned it yesterday on the earnings call as well. I just wanted to see if you can quantify some of the growth that you're talking about in terms of what are you seeing in terms of magnitude of growth on the cloud-based products.

How fast are you thinking of refreshing your portfolio and cloudifying your portfolio so that it's ready and that portfolio is ready for use on cloud-based architecture?

Interviewee: I could say that we are moving more quickly than anyone in the industry to cloudify our portfolio. After we closed Aerohive...I will say that with 97 percent of our workers working from home, [laughs] we never moved off of our target date for closing the final integration of Aerohive. That happened on April 6th.

What we've just seen last quarter, inside of Extreme everyone is adopting the cloud. As far as some statistics that I mentioned on the call yesterday, we were looking at the traffic in our cloud and what's happened with the traffic in our cloud.

Since the pandemic first started making its move to the rest of the world, we have seen 50 percent growth in our cloud traffic and 60 percent from the end of the quarter. Literally, we went

from four petabytes to six petabytes a day in networking traffic being managed from our cloud. It's a pretty huge statistic.

It's also a byproduct of what we're doing. From a device perspective, you're also seeing ExtremeCloud IQ increase significantly, with now over two million client devices being managed in our network. We are upgrading old Aerohive customers and upgrading them into ExtremeCloud IQ. They have keys. It's compatible. Those customers can migrate very easily into our cloud. We're seeing that migration.

I have to say our engineering teams have done an amazing job. They have accelerated the onboarding of new equipment into our cloud. The first thing that came early was wireless. Our WiNG portfolio was cloudified. Then, with April 6th, we pulled forward our Edge switching, our Summit switching series, got pulled forward and now can be managed in the cloud.

Then we pulled forward core switching from October into the June timeframe. Now, we truly can go end to end from the wireless Edge connecting to these IoT devices all the way through the core of the network. You can see absolutely everything from this really easy-to-use interface.

Samik, it's so easy to use. I deployed cloud. My two girls got home from college. They weren't thrilled with my Internet [laughs] connection as it was. I went to the cloud. The access points, they automatically configure from the cloud.

Even I installed four APs. I won't take everybody through it, but I can literally share my screen and jump on and show you my home network, all the applications that are running on all the devices. Even I could do it. That's how easy it is.

It's really the ease of use, how it's being embraced by Extreme, the acceleration of engineering, and a product roadmap that's driving cloud adoption and cloud usage inside of Extreme. Then it's spilling over into our partner communities, into our customer communities. It's really a way for our teams to uplift the dialogue that they're having with these enterprise customers.

Samik: That's helpful. That's nice to hear as well, that it's that convenient. Just maybe take us through the Aerohive part of the business. What have you seen in terms of growth in that business since the acquisition and also the subscription attach and the implications of the recurring revenue mix that's increasing over time as well through Aerohive business?

Interviewee: We're seeing significant growth in year-over-year growth as far as cloud

subscription despite everything that's going on in this environment.

Samik, I wouldn't say that...We don't divide up the business Aerohive and Extreme anymore. The final consolidation from a systems perspective happened in April. Then the old Extreme portfolio is being cloudified. It's really now just everybody focused on cloud, and then the migration of products into the cloud, and then subscription selling.

Again, our product team said it was a cross-functional effort. We've put together a very simple licensing model with one price for all licenses for the cloud. Regardless of the switch or the AP, there's a single price. That simplicity, we think, is going to make a difference in the marketplace.

As it relates to the old Aerohive platform, they had a very rudimentary and simple, simplified licensing model that was homegrown. We've upgraded that.

As we come out with our Co-Pilot, which adds automation, in July, we are going to have more sophisticated licensing options, if you will, in terms of how we license software and how we license additional services on top of the basic connection and Pilot connection.

I'm not sure that's a very good answer. What I would say is I think it's going incredibly well. The Aerohive leads in cloud are leading our cloud initiative inside of Extreme. We've taken on software. Our system engineering leads have come from cloud in both the Americas and the international markets. I'd say people are embracing that inside of Extreme. We're truly becoming a cloud-driven company.

Samik: Maybe looking at the other aspect of this, you've acquired some companies and onboarded a lot of products that those companies had. One of the frequent feedback that we get from the channel is that there has to be, and I think you've mentioned it as well, a rationalization of the portfolio in terms of simplifying the portfolio over time for the channel as well as customers.

Where do you stand today on that front? If the refresh cycles do get extended from customers because of the disruption that we see now because they push out the placement, does that then change your timelines of how quickly you can simplify the portfolio?

Interviewee: No. If anything, we're accelerating the simplification of the portfolio. I think some of the separation from a product perspective has been somewhat artificial, and I can talk about that, and maybe self-induced from an Extreme perspective in terms of how we organized ourselves to deliver on the product roadmap. We've made a lot of changes now around that.

What we find is that it's our customers and our partners ultimately. They like unique features. It may have come from the old Avaya VOSS, or that came from the data center side, or they came from EXOS.

What our teams are doing, and our OS teams are lead architects inside the company, are looking at open-source tools effectively providing a shim layer to sit on top of the features from the old personalities.

What we're going to do is eliminate the personalities. People might in the field feel like they're in love with VOSS and our fabric capabilities. That's going to continue for customers. Going forward, the box won't be called VOSS, if you will.

What we've done from an engineering perspective is tear down the silos of the teams and create a different what we would call operational model that's driving efficiencies in our R&D. That was one of the long-term projects that we accelerated to drive the savings that we generated here in this quarter, but that will carry on into fiscal '21.

All the separate product teams have been taken apart. We have a switching team. We have a wireless team with cloud and software included because our software ultimately will be coming from the cloud. We still have on-prem options, still very popular.

The bottom line is we've combined and collapsed the different product names within our R&D teams. We're creating cross-fertilization in teams around a more universal platform. Our gen four will be the universal name, but it will carry forward the different personalities we have in the portfolio, if that makes sense.

If anything, I would say -- our first universal switch coming out in calendar Q4 -- the changes that we've made are going to accelerate that, not delay.

Samik: Maybe let's focus on cost for a bit. Two aspects to it. One, there were some near-term actions that you highlighted on the call yesterday. Then there's going to be longer-term plan to also focus on cost and what your operating cost structure looks like.

In terms of the short-term actions you're taking, first of all, if you can recap where the majority of those cost savings are coming from in the short term. Is any of that to pull forward what you hadn't done, so for your longer-term plans, already?

Interviewee: I look at it in two areas. What are more tactical moves to reduce costs in the near term as well as what are longer term, so are more structural, changes that we make to the business to drive efficiency and productivity?

First of all, travel stopped [laughs] inside of our company. Literally, a lot of our OPEX savings that were very easy to achieve is the fact that we don't have travel. We literally have no trips in our travel system.

Our old normal was a lot of travel. That will change going forward. We won't go back to the old way of doing business with that level of travel as a company as far as our policies are concerned. But that literally went to almost zero. The same thing with entertainment. We canceled events.

A lot of these things bring savings to us that I would call, these are more tactical. We did a salary reduction. We suspended our 401K for the quarter. These were temporary measures that we took, again more tactical to hit an OPEX target for this quarter. That's what we drove.

I think our teams, our leadership team and then all the way through did a great job with that. There were certain employees that were exempted from the salary reduction, and over 50 percent of them opted in to it, just solidarity team Extreme, the times we live in. It was pretty amazing. So, we overachieved certainly on that one.

The structural changes are what I was talking about before in engineering. Streamlining our teams with really a new, and it's more of a cross functional approach, within engineering.

That's something. It was a lot of time that was spent. We kicked that off in October. The teams effectively pulled in a plan that we were going to implement in July. There were a lot of decisions that were made, and there were meaningful headcount reductions that came as part of that. But is actually going to speed up our velocity. Our internal name for it was Project Velocity.

Then on the sales side, I stepped into a leadership role. We had a strong lead for the Americas that we hired that's doing a great job. We combined EMEA with our APJC market, so we have one international market. That's taken out some structure and some expense with that move.

Then we're streamlining. We're empowering and we're putting more power into the field. We've taken some structure down in that organization as well as it relates to, for example, having a completely separate partner organization, completely separate distributor organization,

completely separate inside sales rooms. There's lots of organizations that were created with leadership layers.

We've torn down the leadership layers, effectively, and we're combining the teams in the field with common numbers to drive outcomes. People are excited about it. Ultimately it's going to allow us to be a lot more productive. It also means we won't have to carry all the fixed expense with all the old structures. That's another, in our go-to market and sales and marketing is where we've accelerated.

Then finally, everyone always chips in, and we always find ways in Extreme where we need to cut costs in other functions. So, everybody participated.

The last thing I'll just say is we're really excited about our hire of a Chief Marketing Officer, Wes Durow. A lot of experience, and I think the connection between marketing and our field, again, tearing down some silos I think is going to create more productivity for us going forward.

Samik: Thanks for participating. I would have liked to go through a lot more topics, but we've run out of time, and we try to keep everyone on their schedule here. So thanks a lot for participating at the [inaudible] conference. Thank you.

Interviewee: Samik, thanks so much for having me. We appreciate it. Sorry we can't be live.

Samik: Yeah, same here, same here. Bye.

Interviewee: OK. Thank you.



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