Dell Inc.

Barclays Capital Global Technology Conference

Brad Anderson, Senior Vice President, Enterprise Solutions Group

December 7, 2011

BEN REITZES: Let's get started with our next keynote. This is a gentleman I've known for a long time, Brad Anderson, with Dell. He's the SVP of the Enterprise Solutions Group responsible for servers, storage, and networking. Did I forget something?

BRAD ANDERSON: No.

BEN REITZES: That's pretty good.

What we're going to do is, Brad is going to make some opening remarks, and then we'll go into our chat format, and then take some questions from all you, hopefully.

So, with that, take it away.

BRAD ANDERSON: Thank you very much, Ben. And welcome. We're very pleased to be here.

Let me just make a few opening comments. First of all, we're several years now into our strategy. We're pretty steadfast. We are very consciously moving more and more from being, if you will, a point solution or box provider to be more a full value solution. We have made a lot of investments in the enterprise, both organically, and inorganically. Inorganic has been a larger part of the business. We're very much focused on making those investments end-to-end, so even the inorganic investments are not just for products or IP, but it's for, if you will, a transformational capability, be it sales, be it marketing talent, and others, to go become a more trusted solution provider.

We also are very focused on the mid-market. We really think that is a huge opportunity. It tends to be the larger part of the market. It tends to be the most profitable part of the market. And, frankly, it tends to be the most under-served part of the market. And the Dell model has always focused on that, and we think that serves us quite well. The opportunities we've gone after have been very differentiated IP, and capabilities. We are not looking at just filling out a bunch of checkers on a board, but to really have a very differentiated strategy. And I think you see it in the investments we have made, and we're going to continue to do that very much.

We're very steadfast. I think the quarter we just completed showed that we're beginning to see the results. Our enterprise solution and services business grew 8 percent year-over-year. We're very pleased with that. If we take out third party networking and storage set, we are consciously pruning, we grew at 13 percent year-over-year, and so really good progress. Our server business was up 12 percent year-over-year. It's very favorable compares relative to the competitive set.

Our storage business, again, on Dell IP it's increasingly a larger part of our business, it's about 85 percent of our business today. We grew 23 percent, so we are filling in the whole of consciously pruned third party storage revenue, and are getting close to exiting positive growth as a whole, but grew 23 percent, and then our networking business early on grew at more than 40 percent, and it's a very profitable part of the business. So, this is a very fundamentally different Dell from the portfolio, from the type of customers we're serving, and even how we're going about it, both organic and inorganic, very balanced, and very, again, committed to that mid-market point.

If I look at the businesses that I run, you know, again, the server business is a very good business, and we're finding that very broad adoption to, we continue to do quite well in large accounts, and getting deeper into the data center, and more profitable applications and workloads. The business did fantastic in the SMB, which is a big target segment of that, and we continue to still lead in the Web 2.0 hyper-scale, and that continues to be a very solid business for that, and we're very excited about Romley and the next generation. And so, a lot of the effort right now is focused on the next generation, where we'll bring out our 12th generation of servers. And we think that's going to be a good opportunity. Nehalem was a fantastic opportunity. We think Romley will drive similar profiles, if you will.

Our storage business, we are now three quarters into the Compellent, we are very pleased with that. We had triple digit year-over-year growth in Compellent. We think that's a fantastic business. We have more than doubled our engineering workforce as well as our sales force. And so I say that because every time when we do acquisitions, these are more than just going for IP, or our products, it's a catalyst to a broader set of enterprise capabilities. And they are part of a very aggressive growth strategy. So, we have aggressively invested, organically, if you will, into these inorganic things to go drive those businesses much faster. EqualLogic was double-digit growth rates. We continue to lead the iSCSI share. So, we really like the portfolio we have on Dell storage IP, and continue to invest in that.

Networking. We closed the Force10 acquisition in our Q3. We're about three months into it. We're very excited about Force10, and think they bring not only industry leading top of rack 10-gigabit capability, but some of the most high-performance products, and the most dense products, the most power-efficient products. And we think that serves us quite well, because you're going to start seeing 10-gig pretty broadly on the servers in next generation. So, we think that's very synergistic.

The last comment then is that as we build each of these businesses, again, we're making significant product investments, we're making a lot of go to market investments, building our specialty sales organization to go drive those, and increasingly next year you're going to see a number of solutions where we're bringing those products together into much more complete solutions that we think will serve our customers quite well of all sizes.

BEN REITZES: Great. Well, thanks. I forgot to mention that the EMC breakout is starting at 1:30, so not now. And there is no breakout for this one.

So, I wanted to start out asking you with regard to servers, what do you feel is your edge in servers right now? The latest quarter was good server result. I think you took share in the Web scale space. A little more specifics there about what drove that momentum?

BRAD ANDERSON: Well, I think it's a couple of things. We grew servers year-over-year revenue 12 percent. I think our chief competitor is a minus 4, so it was a very good quarter for us. Our growth is pretty broad-based. We saw growth in very large accounts pushing into higher value workloads, which is very encouraging. For the last year or so, we've seen our core socket position strengthen. A lot of that -- it's a fantastic product, but a lot of that also is, we got to market much faster than many in the marketplace, and people who maybe hadn't look at Dell, evaluated Dell, and saw that was a fantastic product.

We saw really strong growth in SMB globally, over 18 percent year over year. And we gained two points of share in Europe, which has been a huge stronghold of one of our competitors. So, very broad-based. And hyper-scale continues to be a very good market for us, Web 2.0.

I really chalk it up to a couple of things. One is, I think the 11th generation servers is a fantastic product. And more and more customers are evaluating that product, and that's coming through. I think some of our competitors made some decisions where people were less clear of their strategic intent, and I think more people took a look at the Dell lineup as a result and I think we fared well from that.

And so, it's -- I mean, I think we're really clicking, and this is kind of on the eve before we'll introduce the 12th generation here in early calendar next year, and feel like we're building some pretty good momentum around our server lineup.

BEN REITZES: Now, you touched on Romley. What do you think the benefits are, and how will that catalyze your business?

BRAD ANDERSON: Well, we're excited about Romley. It's a good performance increase generation over generation. While it may not be as significant as Nehalem generation over generation, it's still a big step up. And Nehalem, as a point of reference, because of the performance increase, if you think even about, not even generation over generation, but Nehalem EX versus a lot of the single core product, single socket, single core product out in the marketplace, there's like a 19X increase. And so people were -- not only was it a fantastic platform virtualization, people were kind of paying for that investment within months.

And as a result of that, the performance, it drove much richer configurations, in terms of memory sizes, in terms of disk sizes, and so as a result we've seen in the server business, at least Dell has, ASPs increasing. I think it was about the seventh quarter in a row of ASPs. Romley, while not as big a jump, it's still a significant jump, and if you think about the customers who will refresh with Romley, it's probably not the Nehalem; it's still older generation.

So, it's still going to be a large step, and so we're anticipating directionally a similar phenomenon, where it's going to provide large memory, larger memory configs, larger disk drive configs, because of the processing capabilities, but then with Dell, specifically, this is more of a Dell statement, you're going to see things like 10 gigs being pretty much the standard networking interface. So, we think 10-gig will get at some of the performance bottlenecks that virtualization customers are wrestling with. We think that will be very synergistic with Force 10.

Also, you're going to see next generation of Dell platforms more standard implementations of SSD and Flash, again, we think that's going to be a big winner for virtualization. If you look at the workloads that have been virtualized, to really take advantage of virtualization you kind of want VM mobility. So, you've probably got network storage. IO has been a bottleneck, and people have tried to solve it by putting more and more memory in. We think intelligent usage of Flash and SSD is going to be a much more effective way and it's going to get at those bottlenecks, it's going to allow even more -- make it even a better -- the Dell 12th Generation even a better virtualization platform than even Nehalem and our current generation.

And then there's some special things with some of the technology we acquired that we think we can also address some of the high availability concerns with a small company we bought called RNA, that not only helps with the performance, it provides a high availability capabilities so you can run BI decision support applications and have both read-write protection, having tier 0 storage in the server, using that shared storage. So, it's a pretty powerful story there.

BEN REITZES: So, Romney helps -- Romley -- so, it helps catalyze. Now, the Flash attach rate should go way up, and this helps margins?

BRAD ANDERSON: Yes, I mean, today there are Flash options, SSD options out there, but they are kind of proprietary and they're relatively expensive. And so for those applications that really need performance, they make sense. Through even more standardized packaging and implementation, we think we can provide that capability to a broader set and get at a larger opportunity than just the performance seekers. And so we think this is the start of providing --

BEN REITZES: Dell IP?

BRAD ANDERSON: Yes.

BEN REITZES: There you go. That's very interesting. With regard to storage, the overall storage number declined the last quarter, and we talked about this a little bit earlier, you and I, how does it play out logically, though? It would seem that given the pace of the EMC business, which I believe is 15 percent now of your total at most, the compares start lapping, and then you start to grow in that business in a few quarters, is that how it works overall?

BRAD ANDERSON: That's exactly right. We are about a quarter or two away where we will have effectively replaced all the third party revenue, which was predominantly EMC, with Dell IP revenue, and then we're going to start having without any caveat year over year growth with a completely different gross margin profitability profile.

BEN REITZES: Now, it seems that Compellent is doing very well, but EqualLogic saw some competition from I guess EMC would be the next E at the lower end and what not in the latest quarter. Is that something that you believe is transitory and everything grows next year.

BRAD ANDERSON: So, EqualLogic we just refreshed the product in the very start of Q3, so we kind of just went through a product refresh. We've added a unified capability where EqualLogic is a block file system, we added a file capability actually, that file capability came from Exanet, a company we bought. It's the same kind of unified file capability that we put in EqualLogic that we did with PowerVault. The reason I mention that is that when you look at storage as a whole it's a very attractive market from a storage business, but customers are actually spending more to go manage their data than store their data. And so you're seeing us driving commonality on file systems, on de-duplication, and other capabilities across those platforms that really simplify the manageability to not only provide a very compelling storage device but a better architecture for data management, which is a longer-term pain point that our customers are facing.

And you're going to see similar things as we continue to evolve the Compellent roadmap where the same file system will be on Compellent, the same de-dupe technology will be on Compellent, and that's going to provide the ability to have much more data mobility across the Dell storage architecture and help customers really manage their data management cost.

Compellent, as I mentioned earlier, we're three-quarters into it. We have more than doubled the engineering workforce and we have more than doubled the sales capability. I mention that because every time when we do these acquisitions they're kind of catalytic to driving our broader foundational skills in these segments. So, it's more than just product it's product capability and IP, and marketing capability and go-to-market, and channel. And so, we have invested heavily; if you will, organically in these inorganic investments and it's really kind of helped things accelerate this transformation that we're making in the business.

So, Compellent is going quite well. And we're very pleased. The position of those two products, EqualLogic and Compellent has been quite smooth. And so we feel like we can grow both of those above market with little to no overlap.

BEN REITZES: And I'm wanting to ask a little bit more about Force 10 in your networking strategy, it seems like you're hiring a lot of engineers, still there, ramping that up. How big do you think networking can get? Right now it's a little on the more immaterial side, but how big can it get?

BRAD ANDERSON: Well, here's how we think about networking to some extent. I mean, and this also kind of gives you some insight on how we think about our business quite a bit differently, and hopefully you think about Dell quite a bit differently, because we're behaving very -- historically we were kind of a fast follower. We saw opportunities and we kind of thought of the efficiencies, and how we could be more efficient, and operationalize things to participate in markets. And with EqualLogic and ISCSI, we had a point of view, kind of ahead of the market, jumped in and really drove that very hard.

Networking, we're kind of like-minded, where we think that when you think about virtualization and the continued adoption of virtualization, when you think about cloud, that storage is virtualized, compute is virtualized, the network has to change. And so we thin the network has -- it's not going to happen overnight, but there's a lot of changes that has to happen in the network to catch up, if you will, to this virtualized world that infrastructure is moving to.

In doing that we think the data center dramatically changes. And you'll start having convergence at the edge of the network. The edge of the network is top of rack down. We want to participate in that. So, Force10 is incredibly important to us, because it's one of the leading 10-gigabit top-of-rack providers out there. Performance, density, and power efficiency, probably the best solution we think when you look at all three.

Force10 also brings a lot of other capabilities in terms of the channel, and direct sales capability. And so while it's early we want to now get in networking and drive that trend, rather than kind of wait for that to happen. And we think Force10 is the best place to go do that. As such, we are investing heavily, much like we did in our storage business, on both the engineering side. We have hired like all the acquisitions, we are aggressively in the processing of ramping the engineering team.

What we found when we talked to customers who had deployed Force10 solutions they loved it. Technologically they loved it. They loved the 10-gigabit performance. They loved the distributed switch architecture they had. But, the thing about Force10 is, they didn't have the reach, they didn't have the distribution. So, we complement that very much like our storage acquisitions, where we bring things that they didn't have, and then they bring a lot of things beyond product that we didn't have, that really kind of accelerate our participation in that space.

So, when you all add it up currently, we're only like two points -- 2 percent of the networking market. So, we think we have tremendous headroom and that as the market kind of inevitably changes virtualization, we think winners are going to be those who are participating broadly at the edge, in storage, in servers, and network is a component. And so this is a space that we want to participate in early.

BEN REITZES: And how do acquisitions fit further into the strategy here? You've built out, maybe it's arguable there may be some client storage you might need, there's arguable that networking can continue to be expanded into these all?

BRAD ANDERSON: Yes, we -- I mean, we're -- I think people know that we have been much more active in acquisitions. I mean, I think five years ago we had done one in the first 20 years, and we have done somewhere around six to eight for the last couple of years. And we're very deliberate. They're very much in support of our strategy. Our strategy, as I articulated earlier, is very much transforming us into a much more of a solution provider and so the acquisitions that we have done up to this point have all been consistent with that strategy to buttress that strategy and providing us broad capability. And so going forward you'd expect the same.

So, we think there's additional opportunity on the storage side, and this is true of organic investments, as well, because we're making our organic and inorganic investments, driven off the same dynamics, and so our organic and inorganic investments are going to be around continuing to drive our storage footprint and much in data management, as well as in data storage.

On the networking side, we think Force10 is a fantastic company for the data center, but we're going to broaden our branch. And we think there are some really interesting layers and opportunities that we would like to organically or inorganically address over time, as well. And so those were kind of the infrastructure ones, but then you should also think software, particularly around the manageability of a broader infrastructure, our customers would like to get away from a different toolset for every infrastructure silo, and to have more converged toolsets that not only manage, if you will, the Dell product, but other vendor products, because most of our customers are heterogeneous. As much as we'd like to them to only be Dell, that's not the situation, as well as cloud. Then probably the last thing is services. And so everything we're doing is very much around kind of continuing and extending our enterprise and solutions capability.

BEN REITZES: How much are services important for your business right now, servers and storage, networking?

BRAD ANDERSON: Well, it's extremely important, because as you move into -- first of all, for all of it, as you move into higher-end workloads, be it ERP, decision support, BI and that, people don't buy that on infrastructure alone. And so to have the confidence that they are dealing with a vendor who has experience in those areas, beyond break fix, but architectural experience, and deployment experience is super important. The same thing is true at high-end storage deployments and services around networking is particularly important. So, we're investing in those and so every one of these strategies we look very much end-to-end.

So, when we look at any one of these areas and say, hey, and set our targets of how we want to grow relative to the market, some of them we find that our gap may be more product. And we'll make product investments. Others we'll find our gap is more services related, and so therefore we make services investments rather than product. And others may be go to market, and so we're very deliberate to try to make sure that we're investing in a balanced way to deliver on that business end-to-end, rather than, if you will, over-investing in one facet of the value chain and that's kind of being able to drive tangible results, because we neglected a different part of it.

BEN REITZES: And PCs, how much are you seeing PCs pull through servers right now? There's the virtual desktop initiative, which some folks have.

BRAD ANDERSON: Yes, they are connected. It's pretty interesting. I mean, there's absolutely huge synergies, as I think has been talked about here in the last couple of quarters on the cost side between PCs and servers, and in general while customers will have different individuals setting their desktop, or their notebook standard, then their servers, so they tend to be discrete. I think some of the events of the last quarter, customers have really thought about the connectedness of that. And the number of suppliers and partners they want to deal with, and I think you have seen that they're more connected than maybe we even sensed, independent of EDI. So, I think we, because we're committed to both of those businesses, I think we've fared well.

On the VDI side, our client business is investing much more in VDI. We have a large number of active pilots and deployments on the VDI side. We like that, and so for my business I want somebody who is deploying a Dell solution that they have Dell client and Dell servers and storage in the backend to go do that. That's the best experience possible. But, because of the nature of our enterprise strategy being open, we are on the enterprise side, we want, even if it's not a Dell client, we want to be the best backend architecture for any VDI deployment, not necessarily limited to Dell. In fact, invariably a lot of these virtual desktops, or virtual client deployments, they have a range of different client devices, so it's really important that our enterprise strategy support that whole range of devices and we think things like -- both EqualLogic and Compellent, because of the automated tiering and that, we really lend ourselves very much to a lot of those client deployments very well, because we are able to kind of tier and move data very appropriate to, if you will, boot storms, wherever they bring up those devices, where you need all that for the boot, as well as managing the access to their data.

BEN REITZES: I wanted to ask two more questions, then go out to the audience here. So, your business looks like you would think it's going to grow because storage is going to start to grow. You're gaining share, you said, in servers. And then networking is really small where you've done an acquisition. So, each one of those businesses seems like it grows in calendar year '12,or pretty much your FY '13. They are higher margin businesses, which it would seem like there's EBIT of growth at least in line, you've got to invest maybe in OPEX, but EBIT growth in line with that revenue. How much do you feel -- I guess, the question is, is this enough in theory to pull along the rest of the business, and grow the company's profits?

And I know you can't answer all that, but in theory it seems like at least this part of the business, as higher margins, is going to grow EBIT, and you guys haven't given guidance, but I think most of the street has operating profit down next year. I'm just trying to -- you don't have to get into guidance, but just qualitatively, how do you kind of circle the wagon in that your business is going to grow EBIT, and the rest of the street has you down?

BRAD ANDERSON: Well, we haven't given guidance, and I'm not going to get into that. But we think the enterprise business, for the things I've articulated, and the things you've just kind of fed back, we have opportunities in each of those businesses to grow above market. And in two of them, we have the opportunity to dramatically change our gross margin profitability profile because we're moving from, if you will, third party OEM margin structures to essentially almost 100 percent Dell structures.

And because our footprint in each of those businesses are relatively low, where our networking share is just over 2 percent, and our storage share is about half of our server, we think we have potential to grow significantly above market. And so that's kind of our plan. And so, in that business, on the server side, we really think our 12th generation platform is going to be a fantastic platform. I think our 11th generation platform out there on the servers is the best in the market.

And we think beyond Romley we're bringing a set of highly-differentiated capability in that platform that's going to serve us quite well into getting into yet richer workloads. And, so we're quite excited about that. And so we think we obviously have above market opportunities on the server side.

And so, you know, with that, there's no reason why our enterprise business, and then when we add services, should be -- we should be obviously accretive relative to the corporate OPINC, but also top line growth. And we need to do that, and that's kind of directionally how we think about our enterprise business.

BEN REITZES: Good. Thanks.

And, lastly, I just wanted to ask the HDD question. Dell is a huge player in PCs. You can probably leverage that. It seems like you're going to be one of the more favored nations in this debacle. And how is it playing out?

BRAD ANDERSON: Well, we think we're in pretty good shape. We think we are as in good a shape, if not better, than most anyone in the marketplace. We reacted very early. We pulled in drives from our hubs, our vendor hubs. We did very early strategic buys. We have had really long-standing relationships with the drive providers. They've been very good partner relationships. And so, I think that puts us in very good stead. There's a little bit of uncertainty because the driver vendors are not just kind of getting into their facilities here just now. The water has receded, if you will, so they're evaluating. And so, November and December was a lot of the existing inventory. And so we'll know a little bit more about January and Q1, but we kind of feel like we're in as good a position as anyone, and we're being fairly aggressive. We have kind of told our teams to go get the business, and we will work to go get the drives. And so, we feel -- we'll know more as our drive partners assess their situation. But we feel we're in pretty good shape.

BEN REITZES: and then, from a margin standpoint, you've got the DRAM tailwind at least that kind of offsets that.

BRAD ANDERSON: Well, we've got the offset, yes, memory is a positive offset. Our direct model serves us quite well, Ben. Everybody is going to have some drive shape where customers will want a terabyte, or a 500 gigabytes, or something like that, and you'll have one not the other. We think our direct model serves us quite well to shape, and to shape demand to what we have available. And because more of our business will be going through direct than indirect, not that indirect isn't super important, but just because that's the facts, that we're able to shape more easily to what supply is available than some of our competitors who have another layer or two that they've got to work through to go try to match up demand to available supply.

BEN REITZES: Well, great.

Any questions out there for Brad?

There's one here.

QUESTION: Brad, with respect to the different businesses that you're pulling together inside of enterprise, in aggregate they look a lot different from the rest of Dell, both in terms of growth and margins, but also in terms of the cost structure. And I'm wondering if you can give us the longer-term view of how your business looks in terms of the P&L relative to the rest of the company?

BRAD ANDERSON: Well, a couple of things on that. So, they are very different businesses, and we have consciously very different cost structures. The R&D, as well as the sales and marketing, investment for servers is very different than it is for storage, which is very different than networking. And so we're running those as commiserative to those differences. And we're shaping the whole company.

And so while when you look at the company and say, hey, you know, Dell, you're spending a billion plus on R&D on a percentage basis, we're up more like industry norms as a percent of revenue for our storage, which is 10 to 12; and then, you know, client business is maybe less than a half a percent. So that's a big difference in Dell, and we recognize that.

Very similar on the go to market side, recognizing that if we're going to be successful in this, we have moved way beyond this kind of one-size-fits-all model. As a result, you know, that's why, to Ben's earlier question, driving the top line growth is super-important, and the margin profile is very important. And so, in those businesses, we are driving significantly different margins relative to the other businesses in the organization.

QUESTION: (Off mike.)

BRAD ANDERSON: Well, I mean, we haven't broken out the margins of each of that, but if you look at a pure storage company where they're up in the 50-60 percent gross margins, we're in the same neighborhood.

QUESTION: (Off mike) -- as you described earlier. I guess one of the knocks against the strategy is, well, what if the demand doesn't wind up being there, what does that do to Dell?

BRAD ANDERSON: Well, let me just use storage as an example. We've invested a lot in storage. We consciously this year invested on the sales and marketing side a little bit ahead of demand. We know to be successful in storage we need a storage specialist sales capability. And so we made that investment. We made a lot of that investment in Q1 and Q2, a little bit less so in Q3. We felt it was very important to front-end load it, because we're in this for the long-term. So, we measure the productivity of those sales resources very closely, and what we find is that for storage to get up to full industry productivity is somewhere between six to 12 months.

And so now that front-end loaded investment, where it was an investment in Q1 and Q2, now a fair amount of those members have been here for six months, next quarter the majority of them will have been here for nine months. In Q1, the majority will have been here a year. We're going to start seeing the return on that investment. And so we're managing those things very, very closely commensurate to the growth in the returns that we want in that business. But we made a conscious choice to invest ahead initially.

QUESTION: Understood. So, is there a point in some number of quarters where we should again see revenues growing at least as fast as your expenses are growing, which I don't think we did see in this quarter.

BRAD ANDERSON: Yes. The short answer is yes. At some point we've got to bring those in line. It was a conscious decision, and you saw in Q3 we moderated OPEX. OPEX as a company quarter sequentially came down. And so, now with the productivity gains, some of that moderation is, we made those investments front-end loaded, and some of it is, we're being a little bit mindful of the macro-economic environment. But it's kind of a combination.

BEN REITZES: With that, thank you very much, Brad.

BRAD ANDERSON: Thank you very much.

BEN REITZES: Appreciate it very much.

END