Dell Inc.

2012 Analyst Meeting

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WELCOME

Rob Williams, VP Investor Relations

ANNOUNCER: Ladies and gentlemen, please welcome vice president, Investor Relations, Rob Williams. (Applause.)

ROB WILLIAMS: Good morning. Good morning and welcome to the 2012 Dell Analyst Meeting.

We're going to do things a little bit different today than we have for the last few years. We're going to go with a slightly more informal format. We're going to sit down and have a little bit of a Q&A discussion with Michael and Brian and the rest of the team in each of the sections, and then we're going to allow ample time for Q&A with the audience. In fact, I believe if I do my math correctly, two and a half hours of interactive Q&A and time with the audience today. So, hopefully that will provide you guys with a little bit more of an environment that I think is conducive to a good discussion.

We're going to again first start with Michael and Brian. We'll talk a little bit about our end-to-end solution strategy and our scalable design point, as well as the financial model.

We'll then take a break and shift gears and move through the solutions groups with all the solutions leaders.

We'll then take another break, and Steve Felice will come up and speak through our go-to-market strategy and how we're really bringing these solutions to life with our sales teams and with our customers.

So, I think it's going to be a great day and look forward to spending the next four and a half, five hours with you guys.

Next, I'd like to remind you that all statements made during this meeting that relate to future results and events are forward-looking statements that are based on current expectations. Actual results and events could differ materially from those projected in our forward-looking statements because of a number of risks and uncertainties, which are discussed in our cautionary statements and in our SEC filings. We assume no obligation to update our forward-looking statements.

Please also note that we will be referring to non-GAAP financial measures, including non-GAAP gross margin and operating margins. Unless otherwise noted, references in this meeting to gross margin and operating income refer to non-GAAP numbers.

Historical non-GAAP measures are reconciled to the most directly comparable GAAP measures in the web deck distributed here and posted in the Investor Relations section at Dell.com. I encourage you to review these documents as well.

And with that, I'd like to invite Michael and Brian to the stage.

STRATEGY & FINANCIAL OVERVIEW

Michael Dell, Chairman and CEO
Brian Gladden, SVP and Chief Financial Officer

ROB WILLIAMS: Welcome, gentlemen.

Consistent with the branding that you saw at the beginning of the meeting here, we've been also very consistent in our strategy. Two years ago we made a set of commitments to the investment community that included an investment in IP and solutions, a commitment to grow profit share, and a commitment to grow operating income and cash flow.

Michael, you updated us on that last year. Michael, and Brian, I would like you guys to provide an update to the audience this morning on our progress in FY12 on that.

MICHAEL DELL: Yes. We have been over the last year delivering on those commitments. We've executed eight acquisitions in the last 12 months, and really increased the portfolio of IP, and the range of solutions and capabilities that we have. We're quite excited about that. We opened two new data centers to move customer workloads into our private secure cloud, and we see that as a big part of what we're doing in infrastructure services. We've opened 11 solution centers, and these are centers usually in key financial districts, and global kind of key business centers, where we're essentially having all of our technology there, customers come for a day, we architect solutions with them, and if you look at the whole Enterprise Solution and Service business, it grew to almost $19 billion last year. So, the portfolio continues to strengthen.

BRIAN GLADDEN: Rob, I would say, obviously we've done a good job on the profit side. And when you think about capturing a bigger piece of the overall profit pool in IT, great progress, even in an environment where client business was down on revenue, we saw great expansion in profits, one of the key elements last year.

Enterprise Solutions and Services now makes up almost 50 percent of our gross margin. We talked about that in the first quarter, and very strong results from an operating income, EPS growth, and cash flow from operations up 39 percent, did $5-1/2 billion of cash flow generation last year.

ROB WILLIAMS: Great. You know, along the way we've really fundamentally retooled the company to focus much more on the solutions model, and the delivery of solutions to our customers. I wonder if, Brian, you could cover maybe the quantitative and, Michael, the qualitative aspects of that transformation over the last four years or so?

BRIAN GLADDEN: Yes, the mix of the business clearly has shifted. And even if you go back, look at maybe FY08 as a baseline for the business, 23 percent of the revenue coming from Enterprise Solutions and Services, that's now 31 percent. When you look at the gross margin, it's gone from 40 percent to 50 percent, and we'll talk today, as we think about FY16, around how impactful that will be, how much that will really drive the financials for the business over the next three years.

MICHAEL DELL: And we've greatly increased the engineering capability, and the sales solution capability within the company. So, today we have more than 12 R&D centers around the world developing this technology. We have 5,000 patents issued and applied for around the world. We've significantly increased the percent of our spending, two-thirds of our spending in the Enterprise Solutions area. We have about 6,600 solution specialists that are able to provide these solutions versus 2,000 back in FY08. And we've trained these teams and changed their focus from selling products to selling solutions.

ROB WILLIAMS: Great. As those in the audience and on the web know, we've been committed to this strategy for more than three years now, and it's been a singular focus of the organization to create a solutions business that fundamentally changes the operating income profile of the company.

But we've also refined that strategy, Michael, over the last three years, and continue to refine it and fine-tune it. Could you share with us where we currently stand, and your vision, not only on the strategy, but also on our competitive advantages?

MICHAEL DELL: Yes. So, what you really see here is we're focusing on a couple of key areas. And you're going to hear about this throughout the day today. The first is really around the virtual and cloud infrastructure. This is our server, storage, networking business. Brad Anderson is going to talk about this, and all the capabilities we have there. That's clearly an important area for us.

The next one is the connected devices, or the end user computing space. And you're going to hear Jeff Clarke talk about this and our focus on the whole transition to the virtual client, our excitement around Windows 8, and how we see this S-curve adoption really ticking up in virtual clients. We're very excited about that.

You're going to hear about our software strategy, and how we're building software solutions that leverage the entire portfolio of products that we already have, and build on that strength in areas like systems management, and security.

And then you're going to hear about our services strategy, where today Dell is a very different company than it was five years ago. We have 45,000 people in IT services out of roughly 110,000, and customers are turning to us today for a broad range of solutions. So, certainly supporting and managing and deploying their infrastructure, migrating to the cloud, modernizing their applications and processes, and then securing and protecting their most valuable data.

So, you're going to hear throughout the day from John Swainson, Brad Anderson, Steve Schuckenbrock, Jeff Clarke, as we kind of go through each of these in a very consistent fashion.

ROB WILLIAMS: Great. Great. And a big part of that, and Steve and his team will be up to talk about it later, is this concept of a competitive advantage around a scalable design point. And we use the mid-market design point, scalable design points sometimes interact interchangeably. I wonder if you could touch on that a little bit more, particularly as it relates to the commercial market?

MICHAEL DELL: Yes. The key point here is that as you think about our industry, it's constantly in transition from one way of doing things to another. And so as we approach developing these solutions, we do it unencumbered by a legacy of old stuff. So, you're not going to hear us talk about Itaniums, or Solaris, or mainframes. We want to move customers off of those kinds of architectures onto x86 architecture.

And if you think about where these new solutions get adopted first, it's really in what we're calling this mid-market, which actually is the largest portion of the IT spending pool, and you can architect solutions there that scale very well all the way up to the very largest companies, and down to the smallest companies. And so that's really the kind of scalable design point that we focus on.

And what we find is that customers of all sizes are valuing this idea of more automated solutions, where there's quick ROI, they can deploy them easily, and they're not sort of inundated with features and extra things that they don't need or don't value. We hear that from the largest customers. We certainly hear it from the small to medium-sized customers as well.

ROB WILLIAMS: Definitely. You know, I think that we can all kind of look at the big trends that are out there in the industry, and that are fundamentally reshaping the IT sector as we move forward, cloud, data explosion, connected devices, et cetera. And I think we kind of all agree that those are the big trends. But, we don't really hear that from customers. Customers are asking for solutions to specific problems that they have. And I wonder if you could address that a little bit, Michael, and Brian as well, maybe from your interacting with customers all the time, financial services, retail, manufacturing, healthcare, talk to us a little bit about what you hear.

MICHAEL DELL: Customers aren't buying trends. What they want, they want productivity, they want growth, they want business continuity, they want to solve the problems that they have. So, when I was on the phone yesterday with a large client that we just won a significant piece of business with, and they're expanding globally, they're acquiring other entities around the world, and the other provider that had one or two fewer letters in their name, was not -- you know, kind of dropped the ball, and wasn't able to keep their business running, and didn't really have the kind of solutions that they needed that were flexible, agile enough. And so you sort of approach this conversation from the standpoint of what problem are you trying to solve, and how do you get productivity in your business, how do you grow your business, how do you globalize your business?

A lot of customers we talk to have a problem that Dell had, and some of you who have come to these meetings many times will know that as we grew in kind of our entrepreneurial expansion, we had many, many different systems all over the company, and we went through a period where we standardized those systems and created one system of record for every major process in the company.

There's an enormous number of companies that are going through that. At the same time, they want to modernize. They want to virtualize. They want to put it in the cloud. They want more flexibility. And so those are the kind of things that they're turning to us for, and this is where we can bring a lot of expertise. Certainly the trends are all there. The trends are unarguable. But, the problems that they want solved more fit into productivity, growth, expansion, how do I protect my own intellectual property. Those are the key challenges that we see.

ROB WILLIAMS: Brian, we've talked about our strategy, end-to-end solutions for our customers, talked about our competitive advantages, and obviously a customer point of view on the big macro trends that are out there. How do we bring that together and kind of think about our financial model as we look out over the next three and a half years?

BRIAN GLADDEN: I believe it's helpful to think about really two distinct models here. And the way we've laid it out here, you've got an end user computing part of the business, more transactional, more of a core part of our business, we're seeing slower growth in that space. And I think that's clear. But, this business still is critically important. It generates great cash flow. It pulls through a lot of other key elements of the business where we have great profit pools, whether that's financial services, or attached accessories, and software. The services attach is a critically important part of that business. That's going to continue to be a critical element and really drive strong cash flow and funds a lot of the growth that we're driving in other parts of the portfolio.

We think we can drive that and we'll talk more about a 5 percent operating income as a stable level of profitability that we think is very sustainable in that business. Then you look at the real solution space and many of the elements we spend a lot of time on today. This is a faster growing space. This is a place where the profit pools are bigger. This is a place that's incredibly accretive to the entire portfolio. It is the place that we've made the majority of our investments and we'll continue to do that.

We see many proof points of success here. We've grown this quickly. We're going to talk about 10 percent growth rates in this business and strong profitability at a rate above 13 percent. So, I think if you think about those two pieces really executing and running well in the first part of that portfolio in end-user computing and accessories and third-party software, and then in the enterprise solutions and services growing very quickly, investing to grow, and building out the portfolio, an important way to think about it, different strategies, and somewhat different execution models, but both important parts of the overall portfolio.

ROB WILLIAMS: Let's break that down into the two component parts into a little bit more detail. I can tell you, as you know from ongoing discussions with the folks in this audience and others who aren't here today, that a big concern around end-user computing is that this is a secularly challenged business that has a number of competitive challenges, as well. And I think there are many in this business that would question can we really grow that business, or at what level can it grow, or maybe even at what level would it contract and what's the right level of profitability.

I think it's important to also think about why this business, why end-user computing is important to Dell and also important to our customers. Maybe you could talk about that a little bit more, Brian?

BRIAN GLADDEN: We do think it's an important part of the business and we've focused, as you know over the last couple of years on driving a bigger piece of profit share. In higher value segments for us that's made the business a profitable engine that's allowed us to invest in other parts of the business. And what we're saying here, as we lay out a view of FY16 is, if you just take a 2 percent growth rate and I would argue that's less than some of the third parties are calling for client growth over this period of time, but probably more than what some of you have modeled as you think about the business, if the market grows faster than this obviously we think we can see better revenue growth, and probably even better profitability.

But, again, this is a 5 percent operating income priority that we're laying out for this part of the business and as Jeff will talk about it, if we can grow on that level of profitability it's big, big contributor to the business. We've also laid out here a thought that if this business even shrinks, if you see 5 percent declines in revenue over the next three years, we still could have a business with 5 percent operating income that generates $2 billion of operating income for the company. So, it's still a very strong contributor, an important part of the portfolio, and as Rob said, contributes a lot to those relationships as we build out our presence in customers, especially in emerging markets and in a place that I think we can continue to run very well.

MICHAEL DELL: I would just add, if you think about where do the next billion users come from, they come from emerging and developing markets and when you go to those markets, as we often do, because they're the next generation of growth, what you find is that they're very focused on the end-user device as the first point. And the other parts of the business come later. And so the client business for us is a foundational business and it's incredibly important for us as kind of the tip of the spear as we march into the next generation of emerging markets.

ROB WILLIAMS: Great. Well, Jeff will get into this in a bit and with a little bit more insight into both the desktop notebook mobility piece of that business, but also the accessory and third party software piece of that business. Particularly as it relates to the mobility and desktop piece, Brian, cost is something that you're -- it's a relentless march to make sure that you stay in a world-class cost position. And that applies not only to the end-user computing business, but really to our entire business, the DNA that exists in our business, all the supply chain efficiencies that we continue to go after, that we've achieved over the last several years.

Let's talk in a little bit more detail about what we're doing on cost and what that focus is.

BRIAN GLADDEN: I would say over the last three to four years we've done a pretty good job of getting at a fair amount of cost in the business. That's enabled our competitiveness, especially in the end-user computing business. Today we're talking about a broad cost initiative. We're going to talk about $2 billion over the next three years that we believe is a critical element of allowing us to fund a lot of the investments we need to make on the growth side of the business.

You can see the buckets; these would be consistent with areas that we've gone after before. We clearly believe there's a next level of cost opportunity. And our teams are now kicking off initiatives that allow us to get at some of these costs in supply chain in our services delivery, go to market efficiencies, and also G&A. So, an important element, broad initiative, we saw some progress in the first quarter, even, as you think about sequentially we were down $180 million in OPEX. That allows us to go fund some of the critical activities, invest in the R&D, and the enterprise solutions and services elements of driving this forward. So, an important effort that I think is just a critical way for us to keep it going.

ROB WILLIAMS: I want to pick up on that last theme, which is basically investing in enterprise solutions and services. This is the heritage of Dell, and it's something that we live by everyday, to make sure we're absolutely being as efficient as possible on cost, and the belief there is if you do that you then use those efficiencies to fuel and fund the growth engines of the future. So, let's talk about what those growth engines are.

BRIAN GLADDEN: Yes, we've laid this out in this view over the last couple of analyst meetings and what we would give you here is a snapshot of the server plus storage, plus the networking business. We're going to give you a software view and we're going to give you the services business. When you put these together, this is a business that we can grow at 10 percent growth over the entire period.

ROB WILLIAMS: If we could just go to that next slide, please.

BRIAN GLADDEN: Yes, go to the next slide. So, enterprise solutions, operating income levels are high and will continue to grow as we scale these businesses. We're saying here today in FY16 greater than 8 percent operating income and a $15 billion business with 10 percent growth over that period of time. When you think about software, we're really just getting started. Today when you look at the run-rate of the acquisitions that we have and the assets that are in the portfolio today, about a $400 million business. We're saying with acquisition and organic growth that that can be a $2 billion business or bigger, obviously a strong growth rate and good profitability. That should be higher profitability as we scale and make that a larger business.

And then services at 6 percent growth, growing to 10-1/2 billion. You'll hear about all three of these elements when you put this all together it's a 10 percent growth for this whole entire portfolio and obviously a critical part of the strategy of the company as we move forward.

ROB WILLIAMS: That's very helpful. Acquisitions are an important element of that addition of capabilities around solutions and services and software and networking, and storage, et cetera, end user computing and end-point devices. We are relatively new to the idea of acquisitions and the idea of kind of managing a portfolio of acquisitions, but a big question that I get consistently. Brian, I know you get it, Michael you get it, Dave gets it all the time when he's talking with investors, is how do we think about this, what are our hurdle rates, what are the KPIs, how do we think about the financial progress of these acquisitions and so, Brian, maybe you could speak to that in a little bit more detail.

BRIAN GLADDEN: It's over the last really three to four years we have built a process here and have had now some great successes. And I think trying to look at the body of work and what we've accomplished, and this goes back to FY08, really starting with EqualLogic as a starting point for this discussion, 18 acquisitions, we've spent over $10 billion on these acquisitions.

They've delivered 9 billion of revenue post-acquisition to the company. We see strong growth rates and really the strategy really focuses on our ability to take our commercial footprint and grow these acquisitions with their intellectual property very quickly through that model. You see 90 percent is a pure average. If you weight that average based on the size of the deals it's over 40 percent growth since acquisition.

And then, you know, as we've talked about, we have a disciplined process, and we have a standard of 15 percent IRRs as a business case model for every deal we look at. And we track very closely the performance versus that number, and I would tell you that in aggregate we're delivering 15 percent. Some are going to be behind, some are going to be better, some are going to be a lot better. And I think as you think about hat as a portfolio, you want to see it deliver on your critical hurdle rate, and that's what we're doing.

So, I think a great sort of base capability that we've built. We've invested in integrated capacity. We have over 200 people in the company now full-time dedicated integrations, and we think this is a strength that we can continue to execute here, and it will be imp to that strategy.

MICHAEL DELL: And all these map back to our virtual cloud infrastructure, our connected devices, our software, and our services strategy.

ROB WILLIAMS: Absolutely. Absolutely, there is method to the process, there's method to the process for sure.

Well, you know, critical to this discussion is capital allocation and distribution of capital to shareholders. We have been very thoughtful, and have tried to execute a very balanced strategy over the course of the last three or four years, and I think you see that in what we've done, and how we've done that. Yesterday, we announced the first ever dividend for Dell, and about a 2.7 percent yield based on the closing price on Monday.

Brian, I wonder if you could talk a little bit about that view on capital allocation historically, but more importantly going forward. How do we think about that balance going forward?

BRIAN GLADDEN: Well, I would say historically, as you guys know, we've made a shift over the last four to five years to move a lot more of our capital into the growth drivers of the company. So, investing more in M&A, investing more in CAPEX, investing more in R&D. That's grown significantly in the company. And you can see that that reinvestment rate continues to grow and will stay at those levels. That's an important element as we drive the company forward.

But we're going to be disciplined on capital allocation. Today, with the dividend announcement that came out yesterday, we're going to keep a fair amount of capital being returned to shareholders. So, we're going to take that from 10 to 30 percent of free cash flow to 20 to 35. The dividend level we've talked about is a 32-cent annual dividend that would equate today to a 2.7 yield on the stock. And we think that's an important element of returning capital to shareholders. We've talked about this for quite a while, and we got a lot of feedback from investors that they would value that. And from our standpoint, it was just a matter of when's the right time to do that. And we're confident that will be something we can continue to have as a part of the portfolio, and grow as the company grows.

ROB WILLIAMS: Right. Let's pull that altogether from a financial perspective, Brian, and maybe if you could kind of bring that all into a final thought on the financial model as we go forward.

BRIAN GLADDEN: Well, yes, I would just bring it back and say, as we think about creating shareholder value and our commitment, just to give you a little bit of a framework and maybe a few elements of how we're thinking about in a long-term view continue with disciplined capital allocation is really a core element of this, and the 20 to 35 percent of focused and disciplined M&A program will continue to be part of that as we grow the business, and especially in enterprise solutions and services. Looking at the Enterprise Solution and Services business, that should be a $27-1/2 billion business as we look at FY16, 10 percent growth, very high profitability, we're saying over 13 percent operating income levels.

End user computing, really stable profitability, over 5 percent operating income. We think that's critically important. The $2 billion cost program will be important there, but it will also be important to help fuel some of the investments on the other side, the enterprise side.

And then, fundamentally, cash flow generation has historically always been a real strength of the company, and driving cash flow from OPS is at a level higher than net income is something that we think is important and we think we can continue to do.

So, if you put all that together, we really feel that this is a model that allows us to drive strong long-term value creation.

ROB WILLIAMS: Yes. Well, regardless of whether we're here in Austin talking to a group like this, talking to individual investors at our Shareholder Meeting, or out on the road talking with investors, you know, a common question that we get is, what is the vision for the company over the next three to five years? Where does Dell want to be? What's that strategy? And I wonder if before we go to Q&A, Michael and Brian, let's close on that thought, and maybe you could discuss it again quantitatively, Brian, and Michael qualitatively. Start with you, Michael.

MICHAEL DELL: It's an end-to-end solutions provider in the areas that we talked about. It's cloud and virtual infrastructure. It's the connected end user device. It's software with a particular focus on systems management and security. And then services to help deliver, and deploy, and manage, and protect all those environments because many customers want us to do that, and that's essentially what we're building.

You're going to see us increasingly be vertical focused in our go to market and our customer orientation. We're certainly continuing this shift from products to services to solutions. And always focused on how do we create value for customers.

ROB WILLIAMS: Right.

BRIAN GLADDEN: Financially, the big picture has to be continued shift in the mix of where we see revenue, but more importantly where the profit of the company comes from. We're talking here that we should see 60 percent of our operating income in FY16 come from the Enterprise Solutions and Services. If you think about that compared to where we were four years ago, dramatic shift, and obviously should drive a much more valuable company, and a much more well-positioned company to take advantage of the growth trends that are in our industry. So, we feel very good about that, and that's an important element of what we're driving.

ROB WILLIAMS: Good. Thanks, Brian. Thanks, Michael.

Q&A SESSION

Michael Dell, Brian Gladden, and Rob Williams

ROB WILLIAMS: Well, let's shift gears now and go to the Q&A session. So, just raise your hand up, and Mike and David will work through the audience, and make sure that we get around to everyone.

Let's go ahead and start over here, David. I can't really see who is in the back row there, but we'll start right there.

QUESTION: Great. Thank you guys. So, you've got this goal, and obviously I know you guys are focusing on Enterprise Solutions and software, and that part of the stack. But you've got this goal of doing 5 percent or greater operating income in the consumer part of the business. It looks like you're kind of headed --

MICHAEL DELL: Client business.

QUESTION: Client business, sure. Okay. So, maybe you define it differently, I'm not sure. Maybe you can talk to that.

MICHAEL DELL: Client devices would include all manner of end user devices. So, desktop PCs, workstations, notebooks, laptops, tablets sold to any kind of end user, whether it's large businesses, small businesses, consumer.

QUESTION: Sure. So, how do you get to that level, then? It looks like a big majority of that business today is kind of going the other way over the last couple quarters, just above 1 percent profitability as you reported in your segment break. How do you get there from where you are today to the 5 percent goal?

BRIAN GLADDEN: Just to be clear, when we talk -- when we actually defined end user computing here more broadly than that even, and we had accessories and third party software in there. That business today is delivering over 5 percent operating income in total. So, I think you're talking about the consumer business specifically. When you look at that in total, it's actually over that level today, and we would expect to continue that.

ROB WILLIAMS: I think it's important to note that that business also includes accessories and third party software, which is a big part of the solution that is provided to customers. When you sell an end point device, it pulls along a lot of accessories. And so that target of 5 percent is inclusive of those two pieces.

MICHAEL DELL: The displays, peripherals, all these things that we're selling along with our client solutions.

ROB WILLIAMS: So, it's a commitment really to maintaining that level of profitability, and growing at roughly speaking what the market kind of would give us.

MICHAEL DELL: Yes.

ROB WILLIAMS: Okay. Next question, we'll move. Let's go over here to David, just because he's close. David, either -- is that Mark? Yes, Mark. Hi, Mark.

MARK MOSKOWITZ: Thanks. Good morning. Mark Moskowitz, JP Morgan. You talked in the last conference call about the sales force inefficiencies. Another dynamic we hear about in terms of a lot of your positions you made in the last year and a half or so is that some of the sales folks, particularly overseas, aren't given as much support from a service delivery perspective, and fulfillment perspective. So, can you just kind of give us an update in terms of where you think Dell is in terms of being able to serve all these new value add solutions customers? Thank you.

MICHAEL DELL: You know, I think it probably depends on the solution. In many cases, the fastest growth has been in the expansion of customer access as we've taken those out. So, if you look at KACE or Compellent, or EqualLogic, you know, we've been able to expand the reach of those solutions out to customers very, very rapidly. We're continuing to build out our capability in all regions of the world, but certainly it's not -- we don't have the same capability that we have in the United States in all markets.

China, India, these are large markets for us. Western Europe are large markets. But our capabilities are growing all over the world, and I think it's fair to say that we've had pretty dramatic growth from our acquisitions outside the United States.

Brian, what would you add to that?

BRIAN GLADDEN: I think the data would -- for Compellent, for instance, we just looked at when we bought the company there was, I want to say, about 30 countries that they were selling into, and within a year of the acquisition closing I think we're up to 100. So, I mean, we've expanded the offerings really globally. That's one of the key initiatives as part of the early integration plans. And we've seen great success there and I think it's a place that we obviously have more to do, but that's one of the key elements of the integration plans is really expanding that presence.

ROB WILLIAMS: Yes. And I would just point out that the third session this morning, Steve Felice, along with Cheryl Cook and Kim Hibler will go into quite a bit of detail on the go to market strategy of the company, really broadly across regions, customer segments, and the solutions that we're trying to bring to those folks. So, we'll have a deep discussion on that market, and I'm sure we'll have plenty of opportunity to go a little bit deeper.

Next question. Let's move over here, Keith, right up front, and we'll go back to Kulbinder next.

KEITH BACHMAN: Hi. I had a question on the slide for longer-term outlook. Brian, I was wondering if you could talk about the ESS. When you talk about 10 percent growth, can you distill that down a little bit into what you think is the organic growth versus the M&A, kind of like what IBM does?

And the second part of the question is on the client business, if you have 5 percent OP income as your target, with declines in the business and mix, presumably tablets as part of that client business, if in fact declines is it really a 5 percent OP income business? In other words, might ASP pressures creep into that with mix shifting from notebooks to tablets?

And, sorry, the final part is $2 billion costs. You say the majority will be reinvested. Is there any way you can distill that down, what does the majority mean?

BRIAN GLADDEN: Yes, I'll make it simple. We're not going to give you a breakdown on organic versus inorganic. When we talk about growth, it's going to include both. We think inorganic is going to be part of that equation as we've always talked about.

I think the 5 percent model, one of the things that we've done over time is we've actually focused that business on key areas where profit pools are better. And as you think about if that business shrinks, I think that's part of our strategy is to find those places where we can continue to be profitable, and that will continue to be a priority versus growing with the market. And we'll trade that off any day to maintain profitability. And I think that's how we're running the business today.

And what was your third question, Keith, sorry?

KEITH BACHMAN: (Off mike.)

BRIAN GLADDEN: Yes. We're not going to break that out. We'll continue to provide updates as we move forward here. I think a lot of that depends on how the market is, and what we see in overall demand. That gives us a little bit of some flexibility there as we execute that plan.

ROB WILLIAMS: And then a point I would make there is, a big part of the solution strategy as we move forward, you're really going to see a convergence between servers, storage, networking, software, the services that are provided. And so I think we want to think about it as kind of a combined target. And really think about it that way, because I think over time the lines are going to blur, and it will be more like where is the operating income coming from.

MICHAEL DELL: Yes. I mean, you think about what's happening with Flash, and in memory computing, we've got super high speed Flash PCI-e built into our 12th Generation servers. The line between what's a server, what's a storage is getting very blurry. And we're building these kind of converged solutions. So, at the Dell Storage Forum earlier this week, Brad showed a new blade chassis. And essentially you plug in two wires, you plug in the network, and you plug in the power. And inside that chassis is a super-powerful switch, a complete EqualLogic SAN and an enormous kind of compute engine. And all the software to make it all work, and he'll talk more about that.

But, one of the big plays for us certainly is you're buying a server, we're selling enormous numbers of servers, what is your server attached to? Your server attaches to a switch. Well, how are you storing your data? Well, you have a SAN. How are you protecting your data? How are you protecting your network? So, we have solutions that kind of pool all this together, from security to the storage, to the network, to the server, and you'll hear more about our 3-2-

1 kind of solution that we're doing in SMB, vStart in the commercial space. This is kind of how we're changing the sales motion and capturing more of the available profit pool.

ROB WILLIAMS: Thanks, Michael. Kulbinder.

KULBINDER GARCHA: Thanks, it's Kulbinder Garcha from Credit Suisse. A question really on the organic growth of, just growth of Dell's stock, if I look at your revenue targets for end user enterprise service and software and take your margin targets, it looks like you're looking for an operating income number of $6.1 billion, plus or minus in a few years time. That's about 4-1/2 percent CAGR, which includes acquisitions and cost cutting. So, the core organic Dell isn't really growing that much. I'm just wondering does that reflect just the weak macro, or your concerns over the next 12 months.

Is it just very conservative, or is that just the assets that you're faced with. And then another question for Brian, if the PC business, let's say, is at a $35 billion revenue number in a few years time, which probably that's fair to say, it could be, there's a chance, what other levers do you have to make sure you do a 5 percent income and then do that $2 billion of profit that you spoke about. Is it more cost cutting beyond even what you've got here in the slides? Thanks.

BRIAN GLADDEN: Yes, Kulbinder, I would say that the outline we've given you is a base case, and in assuming a PC or end-user computing growth of 2 percent. That's below what the market is calling today. And if that's better, clearly our business would grow faster, we'd generate more profitability and the model would look more attractive. I think what we're trying to do here is set an expectation around that PC business that takes into account some of the points that you guys bring up consistently. And by taking a conservative view there, Jeff will show you, we're going to run the business to a much more aggressive plan and if that's the case you would see significantly higher profitability. But, just trying to be realistic there, given the business, if we can grow 10 percent on the enterprise solutions and services business, that's transformational and changes the shape of the company over that period of time.

In terms of, in a downside scenario clearly we would execute aggressively on the cost and we would be having to use some of that cost, I think, in that environment to sort of drive, keep the profitability of the business at reasonable levels and to continue to grow. So, I think that's preparing and executing on a cost-focused structure and the initiatives we talked about today, I think position us to be ready for that if it happens, but at the same time we would intend to reinvest those dollars in growing the enterprise business in a more normalized scenario.

ROB WILLIAMS: Okay. Let's shift back over here, Shannon.

SHANNON CROSS: Thanks, I want to get back to the sales question, because clearly that was an issue last quarter, and it's really crucial to hitting your enterprise revenue and I think it's, based upon this, about half of the cost savings that you're looking at, or optimization of the sales force. So, you have 6,600 specialists I think you said, I mean is that right number? How do you think about what you need to do from a sales perspective and I know Steve is going to talk about it, but I'm curious, Michael, from your standpoint what went wrong, what's going right, and where are you going to be in a couple of years.

MICHAEL DELL: Well, Steve is going to give you a view from the company's perspective and we've all been spending a bit of time on this. I think our SMB team has done a great job in this 321 sales motion and the way this works, essentially, is we have a reference architecture where instead of selling a server we sell three servers, two switches, and one EqualLogic storage array. And that's a reference platform that we can build off of. I think what we've found in our sales motion is that if we ask our sales force, particularly our sales generals, because we have in total about 20,000 sales folks and 6,600 specialists, the rest are generalists, if we asked the generalists to go sell every single thing we have, it's actually very confusing and pretty difficult for them.

If we group these sales motions into logical solutions, like 3-2-1, then you can build a 3-2-1 for SharePoint, and 3-2-1 for Exchange, 3-2-1 for Oracle, 3-2-1 for SQL Server, 3-2-1 for virtualization, 3-2-1 for consolidating your data centers. That is a much more understandable approach for our sales teams, and then aligning the specialists into bigger categories so that we're not kind of over specializing. Steve will talk more about this and we've also found that we had some parts of our business where there was lots of opportunity, we were growing fast, lots of white space. We didn't have as many resources on those green field opportunities. And we had maybe a bit too much where there wasn't as much growth. And so we're moving resources over to where we see the growth opportunities.

ROB WILLIAMS: Thanks, Michael. All right. Let's see. Let's move back over here. David, right here, then we'll come back to the middle of the room here.

QUESTION: I'd like to follow up on Shannon's question in terms of how you're compensating sales, were they compensated on profitability, are they compensated on -- do they have a quota for some of the newer initiatives? That can be really key to how they behave. So, I was hoping you could elaborate on that.

MICHAEL DELL: It's a balance mix of margin and revenue with incentives certainly around newer things that we want to drive. And I apologize again for the deferral, but Steve's session is going to focus deeply on this. So, let me just ask that we wait on the questions related to sales and go to market for Steve, because he's going to address those in detail.

ROB WILLIAMS: Okay. It makes sense. All right, Ben.

BEN REITZES: Yes, I just wanted to talk about the services business a little bit, with the operating margin there. And I could be off on this, but there's a lot of traditional PC client services flowing through that number, is that right. So, if we have a few tough years of PCs here, like last quarter and maybe some upcoming, is there a chance that that really high profit part of services tails off faster than expected, and is that in your estimate for the operating income for services, and how do you manage that put and take with the PC-related revenue stream in services, which is very high margin tailing off and then the lower margin enterprise stuff with the better growth dynamics ramping up?

MICHAEL DELL: I think, Ben, if you look at the last few quarters, despite challenged client growth, we've continued to grow the support business. It's really driven by a couple of things, good execution on the team, even on the PC side, with better attach rates, and better profitability, cost execution there. That's an important element that I think we can continue. But, also, this enterprise business has a large support element to it, as well, and that's growing very fast. And I think with attach rates growing and that business growing at 10 percent on the hardware side that will also be a key driver of growth there. We do have those tied out and it does reflect sort of the base PC case in that model.

I think also a lot of new offers and new capabilities. So, for example as we have created a broader IT services capability, we've actually been able to charge more market rates for the support services that we offer, which in effect means the margins go up on those. We also have new capabilities. So, for example, we have pro-support for data center, where a customer will have, let's say, half the assets are Dell data center assets, but they may have half that are not Dell. We're providing a complete pro-support for data center.

Another interesting thing is as we acquire these new businesses, many times they don't have the support, services, or deployment services revenue that is an enormous opportunity, oftentimes it could be as large as the product revenue, or larger if you think about what's going on in client virtualization, or networking, or in storage, and so aligning our services business very closely with our product groups, we're finding all kinds of opportunity to grow that and of course, we can win those more disproportionately given that it's our IP, it's our product. And the combined effect of that is going to be at healthy margins.

ROB WILLIAMS: Yes, and we'll have Steve up in about an hour, but I don't want to take too much from him. But, there's a big focus on improving profitability in that business and obviously it's about improving attach rates and adding new services in the data center. But, it's also about the things that we're doing with security, with how we're managing infrastructure, things we're doing with applications and business process, outsourcing, these are all opportunities where they're relatively small to in some cases medium sized opportunities today. But, they're a big part of the growth engine as we look forward. And you project out 3-1/2, 4 years.

BEN REITZES: Can I just ask for a quick clarification? When I do the math on this, by 2016 your operating margin target does look like it's above seven, right. We should be coming up with something around the 8 percent range, if we do the math, is that in the ballpark for the combined EBIT margin for the company?

MICHAEL DELL: I'm not going to do the math for you. We've given you the pieces; I think it approximates sort of the 7 percent GAAP basis that we've talked about.

BEN REITZES: GAAP, okay.

ROB WILLIAMS: And don't forget you've got LTI and some other things to factor in.

BEN REITZES: Thanks. I just wanted to see if you were willing to go there, sorry.

ROB WILLIAMS: Good try, Ben. All right. Let's go to Toni. Then we'll go back to Bill.

TONI SACCONAGHI: Thanks, Toni Sacconaghi from Sanford Bernstein. I have two questions. You talked about the belief that if the PC business contracted by 5 percent you should be able to hold operating margins. So, that contraction would be about $47 billion to $35 billion, as you said, which is a decline of about $12 billion. Your consumer business today is about $12 billion. So, why wouldn't you consider exiting the consumer PC business, given that you've stated that you think you could be able to absorb a volume impact like that. Obviously that would likely be highly accretive if you were able to stabilize margins across the business, as you suggest. So, maybe you could answer that question directly and maybe talk more broadly about why Dell needs to be in the consumer business and then I have a follow-up.

BRIAN GLADDEN: Maybe let me start and then Michael can jump in. I think you have to balance, Toni, the scale dynamic is still important. So, as you think about a shrinking client business, if that's the environment that we're in, because of profitability, that's something we're going to have to continue to watch. We want to be at a reasonable scale where we can be in a cost position to compete in all the businesses that we need to be in.

So, I don't think you want -- you don't want this business to shrink. You want this business to grow and if the environment supports that, where we can do that profitably, we want to grow like crazy. And Jeff will show you some plans on that.

MICHAEL DELL: I think the themes you're going to hear about are focus, have the right cost, and drive to the profit objectives that we see. If you look at what we've done with XPS, XPS is absolutely a consumer product, higher margins, and we're also seeing adoption of XPS deep into our commercial space. And we've built some of the features that corporations look for in the end-user consumer devices, the bring-your-own-device phenomenon, but we're able to do that in a secure way. So, we think there's a way to run that business with a cost focus, and target it and ensure that on an overall basis we get to our proper targets. We're not happy with 1 percent OPINC in the consumer business and so I think you'll see us continue to refine that business as part of overall portfolio and how do we narrow the field of things that we're doing. You'll see us; we continue to strengthen the XPS portfolio, for example, which is where we think there's a much richer margin pool.

ROB WILLIAMS: And we'll speak to the other opportunities that exist there in places like mobility and tablets, and virtual client and some of the cloud opportunities that exist around that in Jeff's section. So, we think there are some growth engines there that obviously are designed to grow, but also potentially could offset in more of a negative scenario that Brian laid out for you earlier. And by the way, those are higher margin businesses and in some cases significantly higher margin businesses. Then you had a follow-up, Toni?

TONI SACCONAGHI: Yes, thanks. One thing you didn't explicitly mention, Brian, was expectations for cash flow. So, I think as your plan is laid out, the mix shift from a cash conversion cycle is clearly negative; solutions have not that strong a cash conversion cycle. Consumer PCs have very high, very favorable cash conversion cycles. So, if you run the math out on modest growth for the company, if the cash conversion cycle is going to decline from mid-30s to maybe high 20s or 30 over the next few years, is it realistic that free cash flow actually exceeds net income and so maybe help us think through what that math might be. My guess is even at 4 percent company growth, it's still difficult for free cash flow to be better than net income. So, maybe you can comment on how you think about those dynamics.

BRIAN GLADDEN: We've set cash flow from operations greater than net income. That's been the way we've talked about it. As we've modeled it out, Toni, clearly there are some dynamics that affect the cash conversion cycle as these solutions based elements in business grow faster. We think over this timeframe, over the three-year period, that's still within a negative 30 kind of range on cash conversion cycle. And we think with that, again, cash flow from operations can be better than net income over that period of time.

ROB WILLIAMS: Good. Thanks, Brian. Bill.

BILL SHOPE: Thanks, Bill Shope, Goldman Sachs. There's going to be obviously a lot of debate and continued debate over the various growth scenarios for the end user computing segment. And I think that's a fair debate and there probably will be zero debate over whether or not the enterprise solutions business is a better business fundamentally. And I think we all agree with your strategy and moving towards that arena. With that said, the enterprise solutions business ironically is probably going to be the most competitive for you guys, or most challenging in terms of technological competition over the next several years, and competition in terms of capital going after the acquisitions you need to target.

So, I wanted to understand how you think about some of the risks there, and then additionally we all talk about the secular challenges in PCs, but there are some legitimate questions on some of the secular prospects within the enterprise, particularly the server business, which you guys are fairly heavily exposed to. We're seeing massive increases in utilization per device. We're seeing some approaching threats on profitability from white box vendors that arguably could suggest we're seeing some of the same secular questions on servers in five years that we're seeing on PCs today.

So, when you look at all that, that 10 percent growth target, while it works out nicely on a mix perspective, there are some big question marks around that. So, how do you think about the risks there and if you start to see organic risk to that target, you just make up for it on the M&A?

ROB WILLIAMS: Bill, you just stole my second question to Brad later this morning. So, we'll address that.

MICHAEL DELL: I think those are all the big factors that you outlined. A couple of points about the server market, one is it's certainly more consolidated than the client business. We have a leading share in X86 servers. I think you're also seeing that the data center is becoming more compute centric in the sense that networking is getting virtualized, storage is getting virtualized, and you're seeing these converged architectures rather rapidly.

Now, there is a shift to service providers, or hosted cloud type models, but it's a relatively small portion of the total number of workloads and that's going to take a long time to occur. We actually play in those service providers quite well and we'll be competitive there. Yes, that will be a competitive space and we'll provide some of our own ways for customers to move there in a way that's profit accretive to the company. But, I think there's a really long tail and these service providers, a lot of them are way too small to be able to put up their own infrastructures. So, they absolutely turn to us. And I think you'll have an enormous number of organizations that still want to have their own data. They want to protect it themselves.

So, the big play for us is to use this core strength in the compute engine and extend that out into storage, into networking, into network security, into backup and replication and systems management. And we believe our opportunity to do that is great.

ROB WILLIAMS: Thanks, Bill. Let's move over to Brian, Brian Alexander.

BRIAN ALEXANDER: Michael, could you just talk about how important owning the analytic software IP is to your overall unstructured data strategy? You've got the hardware stack, but what about software?

MICHAEL DELL: I'm going to defer that one for John Swainson. You know, I think certainly we have a modest software business, and that's an area where we can grow rapidly. We've had some very nice acquisitions that are off to a good start. There are partners for us to work with there, and I think we're not endeavoring to own every part of the solution, or all the IP that's out there. There are key places where we can compete, but there also are partners for us to engage with as well.

BRIAN ALEXANDER: Could you clarify if some of that is coming at the expense of the buyback program? How cannibalistic is it, and how committed are you to raising the dividend prospectively?

BRIAN GLADDEN: Well, we're not dramatically -- I mean, this is taking the commitment of --

MICHAEL DELL: We just announced the dividend, and he wants to know how committed we are to raising it.

BRIAN GLADDEN: It starts with the announcement.

MICHAEL DELL: Patience, grasshopper. Patience.

BRIAN GLADDEN: The cash commitment from a capital allocation standpoint to returning to shareholders goes from 10 to 30 to 20 to 35, so there is some overlap, clearly, in terms of the cash. And it will affect our ability on the buyback over the period of time.

You know, we want to grow the dividend as earnings for the company grow. And that's how we're thinking about it. That's how we've talked about the program.

ROB WILLIAMS: And, look, it's important to point out, and it's obvious to everyone in this room, but this is an increase in the commitment of capital distribution to shareholders that is lasting, and is part of a total return equation that, frankly, many people in this room have been asking for. We've talked with you regularly about it over the course of the last year. We've talked with the board about this, and with Michael and Brian about it. So, this is a commitment to continue to have a very balanced approach. And I think you'll see us maintain that balance. It's a big part of the capital allocation thought process here at the company.

JAYSON NOLAND: Thanks, Rob. Jayson Noland with Baird. As a follow-up there on M&A to Brian, with a dividend, with increased distribution of capital to shareholders, what should we expect as any changes to M&A from a magnitude standpoint, from a timing standpoint? The company has been very acquisitive for the last three-four years. What should we expect going forward?

BRIAN GLADDEN: Still a critically important part of the strategy to maintain that program. I think we've been disciplined. I think we're going to continue to do that. I think we have flexibility, and the abilities to get at capital to allow us to continue that program. So, really no change, that continues to be very important.

ROB WILLIAMS: Steve, hi, Steve.

STEVEN MILUNOVICH: Steve Milunovich, UBS. Michael, I was trying to understand the idea that you're going more for the enterprise, competing more on EMC, IBM and HP in their wheelhouse, but from a mid-point design area. So, what are some of the companies that you tend to do well with when you're qualifying accounts and saying, this is a place where we can beat these guys? And, conversely, do you have the discipline not to go after some deals that might be very profitable, but where you've got a very small chance of beating an IBM?

MICHAEL DELL: I think we have at different parts of the portfolio varying degrees of success depending on the account situation, the size of the account, history. There are all sorts of factors. What we see is that there are places where there's more competition, less competition, places where our solutions are more applicable. So, we have more opportunities than we can go after. So, it's really a question of prioritizing.

As you saw on the slide, the mid-market is the largest portion of the market. Our solutions absolutely scale up to the largest companies in the world. And we've had great success selling client products, and x86 products into those companies. When you have an account that has bought into a Cisco networking architecture, or an EMC storage architecture, a really big account, there are kind of strategies to eat away at that, but that's a harder thing to go do than to take a bunch of companies that might be one-fifth, or one-tenth the size of that, and they see Dell as a trusted partner, and we can sell them a complete solution.

So, reality is, we're not going to abandon any segment. We're going to serve the entire segment there. But here are places where we're going to invest more heavily, and places where we can grow disproportionately. And I think if you look at our acquisitions, we've really focused on this idea of solutions that scale, on helping customers automate their IT more.

Even the largest customers tells that IT is too complicated, and that our industry puts in too many features, and they're looking for solutions that abstract some of the complexity and combine things together. So, this idea of the converged appliance that I talked about, while you might think of that as something that's great for a company with 10,000 or 50,000 people, actually our customers who have 100,000 and greater, they want that, too.

And so, we think there are opportunities up and down the line, and the large companies are also very interested in the fact that we're not there to protect the mainframe. And we're not there to protect the minicomputers. We've got a very nice practice in application modernization, where we're taking these big workloads off of those big mainframes and putting them on x86. So, there are opportunities for us up and down the line, but certainly we're going to invest where we see the best returns.

ROB WILLIAMS: I have a hard time seeing there in the back. Let's stay right over here, David.

AMIT DARYANANI: Amit Daryanani, RBC Capital. I just had a question, the 65 percent investment rate that you guys sustained over the last three years, do you expect to maintain that, or how does that rate change to achieve the 2016 roadmap?

And then, secondly, could you just talk about the $5.5 billion that you generated last year, how much of that was actually done in the U.S.? And given the dividend buyback commitment, would you actually have to waste capital to sustain the M&A activity that it sounds like you guys want to keep doing? Thanks.

BRIAN GLADDEN: You know, I think, as we've said, we're going to have, just as we've done over the last several years, various ways to get at U.S. capital, U.S. liquidity, and that means going to the market. We still have debt capacity, cluster capital very low. We can continue to do that. We clearly generate today approximately 25 percent of our cash in the U.S. and that will continue. And I think as the mix of the business changes, that could probably actually go up. And we have at times ability to access some of that foreign cash with tax planning opportunities. So, we feel comfortable in terms of our ability to support all the needs from a cash flow standpoint as we move forward.

I think in general we've had a fair amount of activity around understanding how we're going to fund these things and build the M&A program around that. And I think all of that is part of a broad sort of cash flow model.

ROB WILLIAMS: And the reinvestment rate has changed significantly. The chart that Brian showed kind of looked at a trailing period over a more recent period of years. You can see that that average of 65 is kind of a blend out over the last four years or so.

BRIAN GLADDEN: Yes. I'm not sure that will be completely linear, and completely at that level. But that's sort of the general range that we would target as we think about what we're doing with our capital.

ROB WILLIAMS: Yes. Okay, good. Ananda.

ANANDA BARUAH: Thanks a lot. Ananda Baruah of Brean Murray. Michael, when you guys go to mid-market with your solutions, and particularly thinking through the VAR channel, are you able to get the VARs to sell the products as a solution as you're trying to have your direct sales force do today? And how do you get them to focus on holistic Dell solutions versus point products as they go to their customers?

And then, also, are you at the point where you're actually having your sales specialists support the VAR channel in selling the solutions space?

MICHAEL DELL: We've done a number of things to grow the channel business. And it's now on the order of a quarter to a third of the commercial business depending on the country. And we've essentially created a comp neutrality for our direct teams and the channel so that they're incentivized to partner with the channel. And as we create more of these converged solutions, and certainly the acquisitions have strengthened the channel program. We now have over 100,000 channel partners. We're seeing a very strong take up of the complete stack. I mean, we're tracking closely how do we take them from --

We acquired a lot of storage partners with EqualLogic and Compellent, how do we take them into PowerEdge, and how do we take them into our Dell Networking portfolio? How do we take them into networking security? We acquired SonicWALL. They had 15,000 partners. How do we take the networking security partners into networking, and how do we take -- they can't all do everything you'd like them to do, but we have a very broad portfolio.

I think what the channel is figuring out is that it's not a question of if they're going to have a partnership with Dell, it's a question of when and how. And Dell has a set of solutions, which are broad and comprehensive as brand and pervasiveness that is significant. They're often over indexed to a certain other company in our space, and so they see this as a diversification. That's absolutely helping us. And we're pretty bullish on our ability to grow that. And certainly as we have solutions with much higher margins, we're relatively indifferent to how they're sold. We want as many people selling them out there as possible, whether they're in our channel or on our direct teams.

ROB WILLIAMS: Good, thanks.

ANANDA BARUAH: The growth you see in your mid-market solution business, enterprise solutions business, how much of that do you think comes from the channel versus Dell direct? I think they both can grow. I think we're sort of moving from this idea of we had a channel program to multi-channel to the channel being kind of deeply integrated in our thinking and it's just part of the sales motion and it extends the reach of the company quite significantly beyond what our direct sales force does.

ROB WILLIAMS: Okay, good.

One last quick question, Aaron?

AARON RAKERS: Thanks, Aaron Rakers at Stiefel Nicholas. I want to go back to the operating margin discussion a little bit. I guess what I'm struggling with is the 22 percent-plus services operating margin. I'd love to get an understanding of where we maybe stand today and what the mix within that looks like, given your Fiscal 2016 target. And then additionally on the software side, looking at the growth rate, I'd be curious of how much pruning you anticipate over your model from what would be 90 percent, it looks like, give or take how that reflects the resold software revenue.

BRIAN GLADDEN: Yes, the software number that we showed today that $2 billion would be Dell-owned IP software.

ROB WILLIAMS: And the $400 million is also Dell-owned IP. So, the third party resale we showed within the end user computing.

BRIAN GLADDEN: That's right. So, the resale that we are doing some pruning on and working profitability up is sitting up in that EUC number that we showed you. As you think about services clearly much of the focus and growth and investment has been around building our non-support services. And that will continue to be a faster growing element within that portfolio. As you know, that part of the business would have lower profitability than our support businesses, but we're not going to give you any further breakdown than that.

ROB WILLIAMS: And I would just say that that's been relatively consistent with the targets that we've talked about over the last year.

All right. Let's take a break here. The next session will be with our four solutions group leaders. It's going to be the longest session of the morning. So, take about a 15-minute break and get back here and get started.

END USER COMPUTING SOLUTIONS

Jeff Clarke, Vice Chairman & President, Global Operations and End User Computing Solutions

ROB WILLIAMS: All right, welcome back. I think the F1 video and the work that we're doing with the team is appropriate. F1 is coming to Austin, Circuit of the Americas in November. If you haven't gotten your hotel room, Jeff Clarke has got a pool cabana that he's thinking about renting out. So there might be an opportunity there. (Laughter.)

Let's go ahead and get started with Jeff on end user computing. Jeff leads the end user computing group as well as our supply chain initiatives. And, Jeff, come on up, let's get started. (Music, applause.)

JEFF CLARKE: Pool cabana?

ROB WILLIAMS: That reminds me of the *Caddy Shack* line, it's like, pond, pool, pond's good for you?

JEFF CLARKE: I'm probably, in this group, I'm in the pond.

ROB WILLIAMS: Exactly. Me too. Welcome to the crowd. Jeff, let's get started. Obviously, you heard a few of the questions that Brian and Michael got on end user computing.

JEFF CLARKE: Yes. You're an optimistic crowd about the PC business.

ROB WILLIAMS: Well, they're paid to ask the tough questions. So, you know, you shared the strategy with us last year, give us an update.

JEFF CLARKE: I'd be happy to. Linking to what Michael said earlier, when you look at our end user computing strategy, it really is the same framework that I outlined last year to you all. We introduced the framework. The framework is really built on delivering end user solutions that help our customers. And it's fundamentally built on three core initiatives.

The first is strengthening our core PC business. How do we continue to make it more and more competitive and continue to win in the PC marketplace? The second one is providing new value and providing new value in end-to-end solution delivery and specifically looking at opportunities that exist in the third-party software and accessories business that I'll talk about a little bit later.

And the one that I'm most excited about are the new opportunities, we talked about this last year, in the mobile space being tablets as well as the opportunities that exist in desktop virtualization.

So when I think about our strategy on a go-forward basis, it's real exciting about strengthening the core business, which we'll talk about how optimistic we should be about that, extending that platform into new value opportunities, and then really diving into the new growth markets that exist in the marketplace today that we have generally not participated in. And it's built on a solid foundation of IP and innovation.

ROB WILLIAMS: Jeff, let's just jump straight into the questions on profit profile and growth profile, that seems to be where everybody wants to go.

JEFF CLARKE: There were a few questions on that.

ROB WILLIAMS: There were, weren't there? So why don't you address that directly and we'll talk about that.

JEFF CLARKE: I'm much more optimistic than perhaps several of you are about the PC business and end user computing business. To bridge things, Brian talked about a 2 percent growth earlier this morning. We've modeled the 2 percent growth actually is no PC revenue growth. And the 2 percent is actually tied to providing new value and expanding our scope. Specifically, we believe we can grow the accessories business by $1 billion by FY16. We think there's an opportunity to grow at least $1 billion in Windows 8 tablets by FY16. And when I think about desktop virtualization, we think the opportunity we have there with our leadership position, there's an opportunity to grow $1.5 billion of revenue by FY16 as well. That bridges to the 2 percent case that Brian mentioned earlier this morning.

I don't think that's satisfactory. I think the PC business will continue to grow. It's clearly in a lull today, but I'm not going to argue that. When I look at the long-term prospect PC penetration rate, the emerging middle class, I think people will buy PCs. It perhaps isn't their first device they buy any longer, but the PC marketplace continues to grow. And we're modeling here. And what I'm running the business by is an incremental $5 billion of PC revenue by FY16.

That is slightly less than some of the external analysts have about a 4 percent CAGR over the time frame, but I look at a 5 percent PC growth combined with the $3.5 billion of new opportunity, it's an attractive business for us. And we're committed to do that and continue to talk to the 5 percent op-inc target as the baseline performance we'll run the business by.

ROB WILLIAMS: And if you take that bar chart and break it down into its two component parts, you know, the desktop and notebook business which we report to you on an LOB basis each quarter, and accessories and third-party peripheral business. Let's start with the core PC business. A big part of that, Jeff, is cost and making sure that -- you know, we were talking with Brian that you've got to be in a world-class cost position to maintain and enhance that over time.

JEFF CLARKE: Well, I think there are three keys to the PC business, and it really ties to the $5-billion opportunity. We think the $5-billion opportunity exists in the commercial segments, notebooks, and is biased towards emerging markets. So the three key components of our strengthening the core PC business center around world-class cost performance and position, investing in the emerging market opportunities that exist in the marketplace, and then lastly, which we've seen tremendous progress on on our XPS business and our Latitude business is drive premium value products in the marketplace.

Let me start with what you referenced, Rob, which was the cost position. I think about -- I've been in front of you now the two previous times talking about the need to get our client business in a competitive cost position. We've been on this journey for two and a half years and we've made tremendous progress. The theme of that was fundamentally driving complexity out of what used to be one-size-fits-all model configured order.

We've taken tremendous structural cost out of the PC business. Much of the financial performance that Brian referenced earlier that our client business grew in gross margin dollars nearly 40 percent last year was because of the structural changes we've made. We've reduced 30 percent of our platforms, we've reduced the number of components we'd buy by commodity from 30 to 60 percent. Half of the units shipped today are fixed-offer configurations. That's enabled us to grow ocean shipments 60 percent year over year and drive our ships-fast performance, which has the highest customer experience marks in our business, by 40 percent.

What I find really interesting about that is that journey we started two and a half years ago we think is sustainable. To the point of the $2 billion Brian spoke to this morning, I'm confident we have line of sight to $1 billion of that in the core PC business. It's in new areas like taking freight consolidation and freight optimization. It's taking advantage of the go-west phenomenon in China and the manufacturing network which is well underway. We've shipped our first notebooks out of Chengdu.

There's opportunities to build on the improved quality performance of our products and the warranty reductions that we have seen. Driving efficiency in the sales model. I know Steve will touch a little bit about that on a go-forward basis, but we look at the opportunities to drive a frictionless order through Dell.com, through the entire network as an opportunity to really drive our structural cost. And we think there's an opportunity, particularly when I look at the competitive set in consumer to take down our SG&A costs in our consumer business to compete more aggressively across the global basis.

So I am pretty optimistic about the cost opportunities we have and very confident we have a case that takes out $1 billion. I think it's fuel to grow the PC business, for the bears in the audience, then if the market doesn't grow, certainly we'll use to sustain the margins and keep the business profitable at that 5 percent threshold.

ROB WILLIAMS: Well, playing off the bull/bear there, the bull case is there's growth. There's growth in emerging markets, there's growth in different product categories. So let's go to emerging markets and growth markets.

JEFF CLARKE: Exactly. And I'm very optimistic about the emerging market opportunities. The middle class is going to more than double in size over the next decade. When I think about PC penetration rate in India and China, and China is 20 percent and India is 4 percent, a middle class has doubled, there's more disposable income. Clearly, they're buying smart phones, but they're going to buy PCs too.

When I look how much more affordable a notebook is today in China than it was at the turn of the century, it's 40 times more affordable today than it was just 12 years ago. In India, it's 27 times more affordable than it was just 12 years ago. So the opportunities exist to reach a broader audience with more disposable income to sell computers. They're going to buy computers.

Again, I'm not suggesting they're not buying smart phones and other types of devices, but the opportunity for PC growth in the emerging markets is tremendous. It's 85 percent of the revenue growth in our industry. And we've had tremendous success. Last year alone we grew in our gross market businesses, that revenue for the client business grew 24 percent, which was nearly double the marketplace.

In China alone, we grew our client revenues by 45 percent, which again was nearly double the industry growth marketplace. I think what's really interesting on a go-forward basis, this notion of investing. We're investing in our brand. We have a world-class brand, a recognized brand in these BRIC countries. Our customer experience in these countries, in many cases, is best in class in the industry.

When I look at our customer experience or NPS scores in Brazil and China and India and the small and medium-sized businesses we have, we are an industry leader, and we're going to build on that. And we're going to specifically build a family of growth market products, notebooks, desktops, all-in-ones that are a target for the growth opportunities in that marketplace.

ROB WILLIAMS: And last point here is premium value products. It's something that Steve talked about, you've talked about, Brian, we've all talked about that focus. Give these folks a little bit more visibility.

JEFF CLARKE: Happy to. One of the things we all get confused is this low end -- and we clearly have walked away from a fairly sizeable amount of revenue in the low end of the PC business. But 64 percent of the units exist above $500, which is about 76 percent of the entire revenue of the PC industry. So of the $235 billion in the PC marketplace, 64 percent of those units exist above $500. That's a good, healthy market for us.

We're really focusing on that profitable share growth. And, in fact, in the premium price bands, we grew and outgrew the marketplace in 2011. We've taken share on the high-price band six of the last seven quarters. We actually outgrew the marketplace by 5 percent last year.

And then the real opportunity is to continue to build on world-class products, really driving innovation into the product platforms. The three that I would call out is the XPS 13. It's been very successful to the point we're out building more production capacity for that product. And it really is a differentiated offering around bring your own device in the marketplace. It is an unbelievably competitive and innovative product, and you get it with Dell ProSupport, Dell custom factory integration, and Dell security solutions. So it actually addresses the IT professional needs while bringing on the consumerization aspects into the workplace.

Our Latitude product continues to be the most secure corporate notebook on the planet. Whether it's the encryption processing we've put in or whether it's the multi authentication nodes that we deliver with the product or the SIPS level-three security that is a base offering in the product, it is an unbelievably secure business notebook.

And then I look at the prospects around Windows 8, unbelievable new potential around innovation particularly with touch and what touch will enable on a go-forward basis, we get pretty excited.

ROB WILLIAMS: Definitely. Definitely. You know, accessories and third-party peripherals is an area of our business, a big business for us. It's profitable and it's probably not well understood by the financial community. So take us -- same question: What's the growth and profit profile? How should we think about that business as we roll out over the next three and a half years?

JEFF CLARKE: Yeah, let me lift the covers off this a little bit. It showed up on the earlier bridge where it's an opportunity of $10 billion out of the $42 billion, an opportunity to grow.

It's really made up of five distinct businesses. One is a reselling if pre-packaged software from partners like Microsoft, Citrix, many others. And then four accessory businesses which center around color laser printers, our client peripheral business, which is bags, batteries, memory, docks, mice, keyboards, things of that nature. It's our display business, so flat panel monitors. And then lastly, enterprise infrastructure, which primarily supports Brad's business, which is power and cooling.

And when I look at the opportunities, we've actually consolidated this business over the past several quarters, and we've aligned it to the product groups. So our peripheral or accessories business here is really building and providing end-to-end solutions and more comprehensive solutions around the hardware that Brad and I produce. It's complementary to the software John is going to build and the services Steve provides. And it really is this ecosystem of tightly integrated solutions that allow us to compete in the marketplace.

It's a pretty attractive space. One of the things if you look at the chart in front of you, 60 percent of it's in the accessories business. And when I think about the opportunity to grow this business, it's the following: Someone mentioned earlier, what's the value of the consumer business? Here would be an example. The average notebook user buys $300 worth of accessories in the lifetime of that notebook. The average desktop user buys $600 worth of accessories in the life of that desktop. We capture less than 40 percent of that people in the marketplace.

Our changing our ability to attach more bags, batteries, mice, keyboards, displays on the massive notebook and desktop footprint we have is increased profitability. And so that's the strategic side of it. We're building Dell-branded products or more Dell-branded products, to be more accurate, category champions to drive the performance in those distinct businesses. And we're bringing the same operational discipline that we brought to the client business two and a half years ago to our accessories business.

In two quarters, we've reduced 30 percent of the SKUs. We've eliminated 50 percent of the suppliers. We have improved third-party software margins year over year in Q1 by 40 percent, and the customer experience is vastly improved in the last several quarters. So people are coming to the site, looking at our accessory business in a much different way, which leads me, ultimately, to the point: I'm pretty confident in the billion-dollar revenue upside by FY16 in our software and peripherals business. And we can do that by increasing operating margins by 100 basis points.

ROB WILLIAMS: Good. Well, that's helpful, Jeff. Let's wrap this section. There are a couple areas that you're pretty excited about from a growth opportunity standpoint. Let's start with Windows 8.

JEFF CLARKE: When I think about our growth opportunities, it really is around tablets and it's around desktop virtualization. Specifically with tablets, they've been accepted in the marketplace, clearly, a fast-growth area. A vast majority of the tablets themselves have made their way into consumers' hands. They're in business, without question.

What we think is enterprise Windows 8 tablets allows us to solve problems that exist today with a product designed for the enterprise. So when I look at being able to manage the device, being able to secure the device, work on things like data loss, compliance, device inventory, we think design for enterprise Windows 8 tablets is a very unique opportunity for Dell, one that we're uniquely positioned to perform in.

We have a track record with our Optiplex, our Latitude notebooks, Brad's servers, the services he provides of being able to offer a very differentiated solution in the marketplace. And then wrapped around the mobile device management software that John's going to build and talk about later, we think we're positioned in the enterprise space for success. And Windows 8 is a very exciting opportunity for us. Those products themselves are going to be differentiated from the consumer-oriented products. They're going to be designed for healthcare. They're going to be designed for the education market, which we think there's tremendous opportunity.

ROB WILLIAMS: Yes. And last point is client virtualization. Big opportunity. I see Tarkan Manor on the front row here.

JEFF CLARKE: Front row. Right here.

ROB WILLIAMS: We should get him up here to do this. But it's, obviously, a big opportunity, and it's more than virtualization. It's the back end of that, it's the cloud, it's the connection of the end points through the cloud into a private or a hybrid cloud, and it's a big opportunity for us both on the hardware, the solutions, and on the software side.

JEFF CLARKE: Tremendous. I mean one of the things I think the Wyse acquisition helps us is puts us in the very unique position, one, we're a market leader in thin clients, we're a market leader in desktop virtualization.

More importantly, it's taking that footprint of a leader in the thin client and extracting that with the value that John, Brad, and Steve can provide in a true end-to-end solution. So when I look at the thin client marketplace, it's a $3-billion market, not very large. But it drags, for every $1 thin client hardware, $5 of servers, storage, service, and software behind it. With the integration of this capability, we're now in a position to have access to the other $15 billion and to really grow that marketplace.

I look at the IP that we've acquired that's differentiated. We talked about it in some of the breakout sessions yesterday. But it's also skating where the puck is going with cloud-based services, the client to the cloud solutions, it really is the opportunity to manage products in a much different way. And I'm excited about the outlook. And, again, we think there's a $1.5 billion revenue opportunity by FY16 in desktop virtualization.

ROB WILLIAMS: Awesome, thanks, Jeff.

JEFF CLARKE: You're welcome.

SOFTWARE GROUP

John Swainson, President, Software

ROB WILLIAMS: Let's shift into the next piece here and bring up John Swainson, president of our software business. John? (Music, applause.)

John, if I do my math correctly, you've been in the industry for 30 years, you've been at Dell for three months. So that may not be a fair question, but give us your assessment of what you've found at Dell in your first three months here and how you're thinking about the opportunities that we have and the assets that Dell has.

JOHN SWAINSON: Well, I think you've heard already from Jeff and Michael and Brian why software is so important to this evolution that Dell is on. Let me stress again that software at Dell did not start on March the 5th when I arrived. (Laughter.) Software had been going for a very long time, ten years or even longer. With solutions both developed inside Dell and acquired through M&A over the course of the last decade or so.

My coming is really, I hope, to catalyze the software work that's going on inside the company. I talked about doing software at Dell, not just doing Dell software. I mean, clearly, I'm responsible for a revenue stream. You saw some of that today on Brian's slides. But more importantly, I think I'm here to make sure that software gets effectively used across the business so that we can really take advantage not only of the revenue and profit potential this represents, but also of the enormous ability to glue together our hardware, software, and services solutions to create even higher-value solutions for customers that are, frankly, stickier and have higher margins. So that, I think, is my primary responsibility.

We've got lots of stuff going on. You've seen some of it. You're going to see more of it over time. I spent the first couple of months looking at the assets we have, putting an organization in place, formalizing some of the things that hadn't been as formal as they needed to be and really trying to assess the strategy that we wanted to be on.

ROB WILLIAMS: Good. John, a couple of things you mentioned there which caught my ear. One is IP and the other is leveraging other aspects of Dell's business. Go into a little bit more detail for the audience here on that.

JOHN SWAINSON: Well, look, we're not going to stand up an independent software business at Dell. We're going to stand up a business that leverages all the parts of Dell and does it in a way so that one plus one doesn't equal two, it equals five. So as I look at software, the sweet spot for me are things that leverage the end user computing business and things like mobile device management, which is a huge unmet need in the marketplace. We are, arguably, the number-two or three provider of devices in the marketplace today. We have an opportunity to do what we already do based on our mobile end point management business with KACE, which is already a $100-million business, and really expand that to now manage not just mobile PCs, but also tablets and other forms of devices.

So you'll see more from us in that later in the year as we really start to take our end point management software that's going to be sourced, by the way, from things that we got from Wyse where they've got a cloud-based solution, things we got from SonicWALL, which obviously brings security and VPN-like solutions and things that KACE does. We're going to be able to provide a holistic solution for customers that allows them to easily manage their mobile devices, whether those happen to be tablets, smart phones, or PCs.

Similarly, if we look across what we're doing with services, everything that we do today should have a services component to it. And everything we do today should leverage our storage business. So we've got this tremendous opportunity, given our market position, number two or three or in some cases number one in every business, to really attach software into those businesses, to provide a better experience for the customers, and to build a software business that way.

And so that's why I say on this slide that when we look at the design tenets, it's not just sort of go and randomly look for software profit pools, it's to find things that advantage Dell's overall business, leveraging our core strengths, provide unique value-added differentiation and focus on margin.

ROB WILLIAMS: Michael talked earlier about some of the big macro trends in the industry, but really from a customer point of view, that end user use case, are there some that are more relevant for you than others? And maybe you could discuss those for us.

JOHN SWAINSON: Yeah, I think there are a couple of very interesting things going on in this industry. First of all, I'd like to thank Rob for the 30 years, it's actually more like 35, and at this point I'm counting down, not counting up, so I appreciate that.

Part of the reason that I have stayed so connected to this business is the tremendous rate of change and the tremendous excitement that goes on. I would say that in an exciting year you have one or two of these things. We have three game-changing technology shifts going on in front of us. And you could argue that I could have added easily social media to this, I could have added the industrialization of developing -- I could have added lots of other things, but let's just stick on these three.

We have an explosion of devices. And not just any old devices, devices that are connected -- that IP connected to the network, they're generating information, it's smart phones but it's also sensor-based devices, it's also smart meters, it's all kinds of things that are generating data. And that data is leading to an absolute explosion of the amount of data that's available and accessible for businesses to use in making better business decisions. That's clearly an opportunity, there's clearly a huge disruption going on in the marketplace there, particularly for the midmarket customers who haven't, up to this point, had access to the tools that allow them to do kind of analytics on their business using that data.

And, of course, the third trend that has now been going on enough that we talk about it sort of very casually is cloud. And cloud is becoming very real. Cloud is now within the point where we're seeing something like 50 percent or more of our customers are starting to virtualize their environment and at least 60 percent of them in the next couple of years are going to have one or more of their major applications delivered through the cloud.

That's an enormous opportunity because it ties back to the need to automate their environments, to secure their environments. Just think of what these customers are dealing with. They've gone from a world where they have a relatively finite number of servers running a finite number of applications to them to a much larger number of virtual machines running both on-premises and in the cloud. The applications could be anywhere in that continuum. There's a need to secure them, to manage them, and to do it in a way that doesn't require sort of human intervention at every step. It's a great time to be in this business, and I think we're very well positioned to take advantage of some of these very disruptive trends.

ROB WILLIAMS: Right. Michael talked earlier about being unencumbered by legacy. Obviously, this is an opportunity that clearly falls into that category and that description.

JOHN SWAINSON: Absolutely.

ROB WILLIAMS: Big market out there, but even a bigger profit opportunity.

JOHN SWAINSON: Right.

ROB WILLIAMS: Let's talk about the market and then break it down into the areas where you want to focus.

JOHN SWAINSON: Sure. So the software business is roughly a $300-billion business. It breaks into the three categories showing on this slide, about $90 billion is system software related, about 145 or so is application software related, and about 70 or so is application development, deployment, middleware.

So there's lots of places for you to go, and we're starting at $400 million. And yet, not every one of these is equal, and I'll talk about that next. But suffice it to say that the reason we're interested in this is while this represents something like 15 or 20 percent of the industry revenue, it represents much more than that in terms of industry margin if you do it right. And I think we have an opportunity to do it right.

Now, I might add that this somewhat understates the opportunity for Dell. The opportunity is not just to build a $2- or $3-billion software business here, it is to use software to leverage all the other businesses that we're doing.

I made the point before about mobile device management. A great opportunity for us. Not just to sell software, but also to enable our tablets, to enable our PCs, to enable a higher value offering for our customers with more stickiness and, frankly, more propensity for customers to buy more of those things in the future.

ROB WILLIAMS: Large revenue opportunity, even larger operating income opportunity, folks in the audience would say, John, how are you going to do everything? You've got to focus. And that's a question I get, what are you guys going to focus on? What are the areas where Dell wants to make the concerted effort to succeed?

JOHN SWAINSON: Well, of course, and we've put a filter on that $300 billion. Looked at it, first of all, through the lens of what are things that are highly synergistic for Dell? Secondly, what are things where there's a disruptive force or multiple disruptive forces at play in that industry that's going to enable us to enter? Because, obviously, there's no point in entering into a mature market where you're basically scrapping over the bones. You want to go in to places where there's new and exciting things going on. Clearly, it has to be big enough, and lastly, there has to be an advantage through our distribution mechanism, through the Dell channel, there have to be things that we can do that will differentiate us relative to our competition.

As we've distilled all that down, we've come to sort of four areas that we think are very natural plays. Now, we're not going to do all of these at once. Security and systems management are the two that we're already well down the road on. You can see that we've got a number of acquisitions in that space already. Security, we've got a very strong position both at the edge of the network with SonicWALL and in the data center from a monitoring and management point of view with SecureWorks. We have the opportunity to fill in between those two pieces, and I think you're going to see us do that as our strategy unfolds.

In systems management, there are all these disruptive forces going on with respect to people going to the cloud, people wanting to secure that, and we have an opportunity to build out on what we've done with KACE, the software part of Wyse, AppAssure, our cloud-based backup solution, and some of the other acquisitions and products that we've built over the last couple of years to make the management of the physical going to virtual going to private going to public cloud environment, to make the management of that process much easier.

Business intelligence, building, again, off the huge amount of data and, frankly, the relative lack of tools available to anybody other than the very largest customers. So the midmarket is an opportunity to build tools like data warehouse appliances, quick-start products, and I think potentially and opportunity for us to leverage our own IP in this space with a view of making it easy, fast time to value for the customers there.

Lastly, we think as we look out across the marketplace, there's an application play here, particularly around delivering application functionality in a SaaS model to midmarket customers, maybe "S" more than "M" customers, small more than medium, and potentially outside the U.S. first. So there are some opportunities here that we see around the application business that are, as yet, untapped, particularly outside the U.S.

So all of those represent areas for focus. Security and systems management will be really the first two and then business intelligence and applications will be over the course of the next two or three years.

ROB WILLIAMS: Great. John, that's a very helpful introduction and I know that I as well as the folks in the audience and all of our team members will look forward to regular updates from you in the coming quarters and years.

JOHN SWAINSON: Great. Thanks a lot.

ROB WILLIAMS: Thank you.

DELL SERVICES

Steve Schuckenbrock, President, Services

ROB WILLIAMS: All right, let's move on and bring up Steve Schuckenbrock, who heads our services business. Steve, President of Services. (Music, applause.)

Steve, a common theme that we've talked about really for the last several years, but obviously throughout the course of the morning so far is this idea that we try to approach things from a customer point of view and really design solutions based on the end point use case and the customer need.

You had the opportunity to realign the services organization in Q1 and really realign that organization around that viewpoint. I wonder if you could share the thought process there, your rationale, and why you see that as an important change and an opportunity for services.

STEVE SCHUCKENBROCK: Well, first, you know, you've got to put it in the context of why Dell Services? What is Dell Services here to do? And I would basically say that our primary mission is to help our customers get the maximum utilization and value out of the investments they make with Dell hardware, Dell software, whether it's in the client space or in the data center space.

Second is to help customers who may be in old, proprietary-type architectures migrate from those old, proprietary bases to more modern technologies, more open X86 kinds of standards, which has been the heritage of Dell from the beginning.

When I look at the buying habits of customers, I find that the days of the old big mega deals are done. You know, there are very few of those big, end-to-end, billion-dollar deals that existed ten years ago. And I think that's a good thing, and it certainly plays well for Dell.

The buying habits tend to be much more consolidated to support, to deployment, to consulting, to infrastructure and cloud, to applications and obviously security being a huge component. So we really changed to make sure we could serve both the customer's buying habits as well as the primary obligation and responsibility we have to drive the maximum value through Dell technology that we possibly can.

As a result, we changed the organization. We now have a global support and deployment business. It's growing quite nicely. There was a good conversation about why or how it's growing. I think Doug Schmitt and his team have done a phenomenal job both in terms of execution, cost management, and driving better attach rates across our core value propositions, but also in bringing innovation to the space. You know, we do deployments very,

very remotely now. And our ability to do that in a leveraged way brings advantages across our core business and our acquired companies.

Multi-vendor support was mentioned before by Michael. ProSupport for data center, where we take on the entire obligation, including the software that run our customers' data centers, to provide level-one, level-two, and sometimes level-three support. So it's been a pretty dramatic shift that is directly in line with our solutions capability.

When you look at infrastructure and cloud computing, it's everything from consulting to distributed compute management to data center management to cloud. And it's a really comprehensive suite, and it's important that we have those capabilities together because our customers really don't want to stay where they're at, but they also don't have the skill sets, the capability to make the migration to the future technologies as well as we can do for them. And so we partner very closely with our customers and are very selective about which customers we want to do business with that want to take that journey.

From an applications and BPO standpoint, we focus on three primary verticals. Primarily healthcare, which has been a traditional strength. Our banking, financial, security, and insurance business has been a good and emerging capability for the organization. And then kind of the all other category with a primary focus on manufacturing and distribution. And that really comes off of the strength of the fact that we now outsource all of Dell to Dell.

And so off of the tremendous capability from our own Dell IT organization, including the modernization of our infrastructure all the way through expertise and e-commerce, social media, et cetera, that capability and all is brought to bear through our apps and BPO business.

And then security, you know, when we bought SecureWorks, I was impressed that they were monitoring 13 billion hack attempts per day and that they triaged all of that down to the ones that were really true incidents for our customers, and then they managed to avoid impact or minimize any impact associated with any of those threats, and then inoculate all of the customers against those perceived threats. Now that's 30 billion events per day. And so the hacking community has gotten much more active, and we have certainly stepped our game up and provide unbelievable capability both in managing proactively those events, but also helping customers or potential customers who are affected come in and do emergency triage and usually that winds up with us having a managed relationship. So that's the four.

ROB WILLIAMS: Steve, last year and into Q1 you consistently grew the services business on a multiple to the market. Improved profitability, increased back log, signings were very strong and continued to improve throughout the year last year. Talk to us about the performance and the drivers in each of those areas and where you think it can go.

STEVE SCHUCKENBROCK: Well, the business grew nicely. I mean, we're up 8 percent year on year. The back half of last year I think we were up 11 and 12 percent respectively through third and fourth quarter. If you look at the first quarter of this year, it's up 4 percent, so a bit more modest. I think what you're seeing is, one, a bit of a recovery, because we were relatively flattish in terms of growth in FY11, and FY12, I think, was a step up.

I think as we look forward, Brian put the numbers up of plus 6 percent. That's all factored in relative to our support business, our infrastructure, cloud computing, and security business as well as our apps and BPO business.

From a growth standpoint, I think our support business will continue to do quite well. When we look at the opportunities to attach on a best-practice basis, there's plenty of up side just off of the core business that we have within the support space.

Second, when you look at the infrastructure and cloud computing and security business, we expect that business can continue to grow at a premium to the market and, again, focusing on those customers that really need to modernize their infrastructure and move to kind of next generation end user computing, next generation data centers, next generation compute models around cloud, et cetera.

And then I really think the crown jewel of this, and one of the things that will lead a lot of our growth is in the application space where this capability to help our customers embrace mobility, help our customers migrate their existing applications -- first of all, rationalize their existing applications both at the app level and at the infrastructure level, and then off of that rationalization, either migrate to X86 and/or cloud, or modernize those applications on the journey to X86 or cloud. I think has fantastic financial value to our customers, but in addition to the financial value, it's terrific value in terms of speed to market, which is probably more important to them, this notion of flexibility and speed, than even the cost savings that they'll be able to achieve.

So that's the fundamental basis of our growth. The basis of our profitability is we did manage cost structures very aggressively last year, and we're just getting started. Frankly, we've got more work to go do. And so I expect that our applications and BPO business and our infrastructure business will continue a very aggressive improvement from a profitability standpoint, while at the same time the machine that we're using relative to our support and deployment business continues to get better and better through e-support all the way through some of the more advanced kind of capabilities I mentioned before.

ROB WILLIAMS: Right. I think it's broadly understood by everyone in the audience that we're the number-one healthcare provider for IT on a global basis. We're very, very strong in the United States. But many of the questions that I get from the investment community are, Rob, you know, how can I get a sense of how you have been able to expand into new customer accounts and new geographies and customer verticals was critical to the play that we laid out roughly two and a half years ago.

STEVE SCHUCKENBROCK: Well, you know, really last year was very much about getting our core business on the right kind of trajectory from a growth standpoint as well as from a profit standpoint. And I think the trajectory is right.

I think then you look at how can we leverage that core capability to organically improve this business? And then inorganic opportunities come and go, and we'll be very selective about making the right decisions from an inorganic standpoint.

From an organic standpoint, the things I look at relative to mix are what is the percentage of growth that comes from existing customers versus new? And 60 percent of our signings come from new customers. And so that's a really good and encouraging sign. By the way, that's on the back of 100 percent renewal of all the business, all of our existing customer business last year that was up for competition that we wanted to retain.

From a new region standpoint, 23 percent of our signings were outside of the U.S. The U.S. had been the traditional stronghold, and so the signings as a percentage of the total are greater than our revenue as a percentage of the total and the apps BPO and in the infrastructure space.

So we're seeing some encouraging uplift in terms of our ability to grow organically, and that momentum continues into this year. And as we look at new verticals, 48 percent of our signings were in our traditional strengths of government and healthcare and 52 percent of it were in the other categories. So we're beginning to see the shift outside of those core strengths.

A couple of examples. Towers Watson is a great private cloud implementation, helping them modernize, it was a competitive win. And we moved out of the competitive data center standardized on a private cloud, virtualized that infrastructure, drove tremendous savings and enabled a merger between the old Towers parent business and the Watson Wyatt business.

7-Eleven, when we look at that business, it's really exciting. It leverages some of our new capabilities in social media. It works with them to change the experience for their guests as they come into the stores and the quality of service that they experience in the stores. And it's everything from service desk for everything associated with operating a store, the applications involved in driving a social media capability, and then extending the relationship that they have from the store to the social experience that they have with their guests. And so two examples of the kinds of capabilities that we're enabling for customers.

ROB WILLIAMS: Steve, you've been asked to lead the cloud initiative broadly across the organization, but specifically in services. And we get a lot of questions on where is Dell today on its cloud initiative and what are the things that you're trying to create broadly across the organization, as I mentioned, but also in services? Let's start with the broad piece first.

STEVE SCHUCKENBROCK: I mean, "cloud" is a little word with like five million definitions at this point. And so you kind of step back and look at, you know, let's not get confused by the noise, let's talk about what really matters inside of our business and to our customers. And in reality, cloud touches everything from Brad's business and the enablement of the most super-scaled cloud capability all the way down to the three, two, one, capabilities that Michael referenced before. Those can be miniature private-cloud kinds of implementations. So depending on your definition, there's clearly a big business there as we drive more and more converged architecture and cloud enablement, both private as well as super public.

When you look at the opportunity to orchestrate all of that capability, as John talked about before, it is a more complex experience for our customers. And the management tools to be able to see the continuum of processing capability across your entire workload is going to require new tooling, new types of software. So, clearly, John's got a big responsibility relative to cloud.

Our Wyse acquisition and all the work that Jeff referenced before is an enormous responsibility as we drive this virtualized client world and really capitalize on some of the trends of mobility and consumerization to make sure that we provide a user experience for our commercial customers through kind of this complexity that is occurring on the massive proliferation of new devices.

There's no question that services has a big role in this. And I'll talk about that in just a few seconds, but in the end, across all of those dimensions is certain. And the number-one thing our customers continue to talk about is how do I make sure I have a secured experience? And so in all of the activities that we pursue, we're assuming in the fundamental design and architecture that security is at the foundation of all of the efforts.

ROB WILLIAMS: And maybe you could just take that down specifically to the services element of this.

STEVE SCHUCKENBROCK: Well, from a services standpoint, again, you can take a three, two, one implementation in a small business, you could take a vCloud implementation, which is converged architecture in medium to larger businesses. You have the ability to set up private clouds within their firewalls on an enterprise-class basis. And when I look at those private cloud implementations, I mean secured, I mean clouds that come with SLAs and those SLAs really actually give them the confidence that they're not going to experience some of the issues that they've experienced in some of the other public cloud kinds of situations, because they're now beginning to run core business applications.

You know, a great example of this is Gratifon in Panama. They're essentially running their entire business on Dell's public cloud. It is real-time, operational, and there's nothing short of enterprise-class execution that would be acceptable to them.

We do have the ability to have managed private clouds in our data centers, and we do that for multiple different customers and I can talk about those in a bit more detail maybe in the Q & A process.

And we now have a public cloud capability based on the vCloud architecture, you'll see other architectures within that capability as we go forward. But the ability to manage the customers' workloads, whether it's in their data centers, whether it's in our data centers, or whether it's in our public or private instances I think is a really core differentiation that we've got to stake our claim to, and that's going to be in great partnership with John.

ROB WILLIAMS: Great. Earlier, Brian introduced a base goal for the services business of $10.5 billion. Talk to us about your view on that. How do we get there? What are the core elements? What do we need to add to achieve that goal over the next three and a half years?

STEVE SCHUCKENBROCK: Well, look, I think the goal is out there. There's no question that I have a lot of confidence in that goal. I believe that it sets a minimum threshold of what I think this business has the capability to do. If I look across all of the different elements of growth in this space, no question the cloud is a big factor relative to that. No question that end user computing and managing the complexity across the proliferation of devices is a huge element in that. No question that our footprint is not as big as it needs to be in APJ and EMEA and in the emerging growth markets.

There's no question that we are not providing enough services capability relative to the total hardware base that we pursue. So the notion of lifecycle services, our enhanced capabilities around support and deployment will move us into proactive management. So we're anticipating problems on behalf of customers, and through that anticipation, improving the customer experience. I think all of those conspire to give me great confidence in the growth. And as I said before, I expect the profitability to grow faster than the revenue.

ROB WILLIAMS: Great, Steve, good overview. Appreciate that.

ENTERPRISE SOLUTIONS

Brad Anderson, President, Enterprise Solutions

ROB WILLIAMS: Let's shift, bring up Brad Anderson, president of our enterprise solutions business. (Music, applause.)

BRAD ANDERSON: Thank you, Rob.

ROB WILLIAMS: Brad, welcome.

BRAD ANDERSON: Thank you.

ROB WILLIAMS: Again, this idea of customer perspective and competitive advantage is extremely important for the company. I know you have a point of view on that, and I'd like you to start by sharing that point of view with the audience today.

BRAD ANDERSON: Well, I think Michael and others kind of spoke about it. I mean, you know, with all these trends going on, we are really kind of taking it from the customer's perspective. And when you boil it down to what problems we're solving, it's really helping customers build agile and efficient IT operations, it's helping them make sense of their data and moving it to insight. I think you had some of that in the breakout last night, and it's kind of empowering the productivity of the end user.

So when we design solutions around that, we're really kind of designing them around Dell's strengths. And it really kind of starts with end to end. And solve the problem more holistically rather than address a portion of it. So we're looking across that within my space across server, storage, and networking, but extending into the things that John's doing on software, Steve is doing on services, and obviously in the VDI case, the other way with what Jeff's doing and Tarkan on the thin client role.

We're also looking at this notion of better together. It's not just enough that server, storage, networking, and others are participating. But we're really looking at designing new capabilities and interactions between those products that really kind of change how things are done. For example, our Force10 networking is optimized for our EqualLogic storage. It's optimized for our Compellent storage.

Michael talked about this new blade enclosure where we have now taken Force10 technology and moved it into our blade enclosure. So we're really kind of changing the types of products we're making. So, again, they're much more holistic.

We talk about the scalable design point. Customers don't want to be paying for more than they can consume at a point, and they want to kind of grow their solutions as their businesses grow. And then this notion of disruptive is hugely important. I mean, we have the opportunity to be a very different kind of enterprise player, not necessarily focused on the things that others have done, but to take advantage of these trends and where customers -- and evolving customer business models. And then maybe lastly, we've got to be true to our roots. And that is cost effective, open. We recognize that most of our customers' environments are heterogeneous and this notion of simplicity driving automation is well received by customers of all sizes.

ROB WILLIAMS: Right. Brad, if I think about each of the different solutions, businesses, and opportunities end user computing software, services, enterprise solutions, I think it's fair to say that your business is one that we started the soonest on and we're furthest along on the journey, obviously with still a lot of work to do. My question is, you know, walk the audience through really what's changed in this business over the last four years or so and give them a sense of how we've built that business out.

BRAD ANDERSON: Well, I think you have a graphic up here. It's been a busy time for the enterprise business across all our lines of business, server, storage, and networking. And it doesn't really stop there because we talked about our relationships with services. Steve spelled out our sales capability. And so when you look at the buildout, we're a very different kind of enterprise company than we were only four years ago. And it's both organic and inorganic. It's both Dell IP, but it's also partner-based IP.

If you look at our server business, it's been mostly organic. We built a billion-dollar business in our data center custom solutions business, and we've continued to expand that.

If you look at our storage business, it's really a combination of both. Well, we've done five acquisitions, starting with EqualLogic and most recently with Compellent and AppAssure. Every one of those, with the exception of AppAssure, we have doubled the engineering organization after we bought those. And so we're not only buying leading technology, it's a catalyst for us to kind of drive those businesses even more aggressively and our progress. And then if you look at networking, it's really a little bit of all three. We've got organic, we've got inorganic with this Force10 acquisition, but our partners play a very important role there.

So it's really a combination. And I think the way I kind of judge the success of this is kind of the quality of the wins we see. We routinely now see large workload and application rollouts, data center redesigns where it's made up of our 12th generation servers, Compellent and EqualLogic storage, Force10 networking, and now additions like SonicWALL for security, they are much richer wins now than we've ever had before, and it's on a quite routine basis.

ROB WILLIAMS: Good. Good. Let's take it now down to the LOB view, if you will, and start with servers. You know, clearly, a big opportunity there. It's a large business, it continues to grow. We've got a differentiated product portfolio and there are some things that we want to do. I might just have Bill Shope re-ask his question. But, you know, the big question that I get from everyone is: This is another area where there are some challenges from competitive pressures. And how do you continue to grow this business in light of what's happening with virtualization, with white box, and with public cloud providers?

BRAD ANDERSON: Well, that sounds like Bill's question. First of all, virtualization has been a tail wind rather than a head wind. I know it's been forecasted to be a head wind, but we're already seeing in 12G richer average unit prices and we're seeing richer gross margins per unit on a dollar basis. So it's very much following the trend that we've seen in our past generations. So that's been a good-news event.

In terms of white box, within the server space as a whole, the white box participation has been pretty constant, the 8 to 10 percent for about the last 15 years. If you look in the hyper scale, it's a little bit different. It's about 20 percent, but it's pretty stable. If you look at our hyper-scale business, our DCS, we are well above $1 billion and we're growing at double digits.

In fact, if you look at our ASPs, they have grown at 25 percent compounded over the last three years, and they're three to four times more than the tier two, which really kind of makes the point where those customers, they still want added value other than just the lowest-cost, one-use server out there. They want world-class integration, they want innovation, they want global services, and they're willing to pay for it.

Now, if you look at the broader business, you know, we think there's a lot of growth opportunity there not limited to the hyper scale. I mean, I think the key to that is we've got to continue to execute as we've done in the past around our server transitions. We've been first to market on 11G, we were first to market on the 12th generation, and so we've got to execute that transition.

Secondly, that 12th generation is so differentiated, it's going to allow us to participate in some spaces that we haven't participated in and some workloads. And so we think that's super attractive. Then when we combine that with leveraging the other activities across Dell like converge, cloud, VDI, big source of growth. And then lastly, there are still geographies like Europe and even the emerging markets where we still have opportunities to participate in much faster growth rates or under-penetrated areas. So we're pretty excited.

ROB WILLIAMS: Let's move to storage. We've built out a Dell storage portfolio that started with PowerConnect several years ago, but we added iSCSI, mid-range SANs, we've added fiber channel SANs, on the horizon, being implemented into the portfolio today and moving forward, scale-out NAS, data de-dupe and compression, recent addition of data protection and backup to the cloud with AppAssure. The components are there. And the question from the investment community is: Okay, you guys have it, how do we compete against those big-tier players that are out there and have been doing it for a longer period of time than Dell?

BRAD ANDERSON: Yeah. So a great question. I mean, on Monday I had the opportunity to be in Boston. We had our Dell Storage Forum in which we had 350 customers, and about 400 channel partners, obviously all focused on storage, but not limited to storage. And it got a lot of feedback. And the feedback is they love the products, they love the technology. And in fact, most of those customers, as well as those channel partners, were selling many of those platforms that you're alluding to that we've got to compete against.

And they made a choice. And they made a choice because they really like the value proposition. The technology, in fact, when you look at the amount of intelligence, automation, it's in most cases beyond where those legacy architectures are. And because they were ground-up developed in that fashion, they have ability to handle innovation in a way that the legacy ones are kind of struggling with. They love the ease of use, they love the business model because they've been nickeled and dimed. And every time there's a technology transition, they've kind of got to re-up their storage investment to take advantage of it. We don't do that.

And so the feedback I got strongly was we're on the right track. Now, what they want is we need to go faster. And so the areas that we're really focused on is, you know, most of our investments have been on block. And so we have opportunities to go faster and file. We've introduced the Fluid File System, which is based on Exanet into PowerVault into EqualLogic. I think we announced yesterday it being in Compellent, and so it will be shipping in Compellent here very shortly. We have opportunities to grow faster there.

We're driving now many of the attributes like deduplification across these platforms. We want to continue to do that. We're working aggressively to get AppAssure so we have next-generation backup native into our enclosures.

And then the other things that I think are absolutely key is much like what we talked about even on servers and some of the others is to make storage a part of everything we do. Again, as John moves into BI, the richest data sets are in the BI decision support area. Big opportunity to participate.

In cloud, as smaller customers and others use the cloud storage, big opportunity to partner with Steve. So we see lots, as we look at our forward-looking investments, storage can be pretty much a part of every one of those, and that's a fantastic opportunity. We're increasing our go-to-market capabilities on that. You know, we're not as far along on servers on storage, but we're growing that capability so we really feel like we've got up side there.

And then the other strong message I got from the users in particular is that, hey, we really like this notion where Dell, you're not shy about kind of disrupting things. And so we think there are some pretty exciting trends with memory-based storage where we've talked about the use of Flash. We invested in a company called RNA, so we think we have some pretty innovative ideas to take advantage of Flash.

But then there's another emerging storage technology called VSAN where you're going to see it very much at the high end where many of the cloud providers are looking at it. Maybe a more cost-effective way to do DAS, and then at the very low end. And so we think there's other disruptions that we can participate and drive that are very well suited to the Dell model.

ROB WILLIAMS: Well, disruption is a good segue into networking if you've got all these products, you've got to connect them, and there's a lot changing in the connections and the fabric in the data center and also out in the campus. And we have a healthy and growing campus and client switching business, and we added to that with Force10. Just over a year ago, actually, and we'll be in our first full quarter of Force10 in Q2. So let's switch gears there.

BRAD ANDERSON: Okay, networking obviously I mean, we've been in it on the campus and branch as you alluded to with PowerConnect. And PowerConnect was even kind of used as a data center implementation for smaller companies.

Force10 gives us a completely different capability. And so we're very much focused on the data center. And so when you think about all our strategies that we've been talking about, enterprise strategies are data center focused. And so it's really important to be in the networking business. So the networking business is really a hugely important enabling business for much of what we're doing here.

And the thing we've got to keep in perspective is today we have like a 2-percent share. So our strategy is not trying to out-Cisco Cisco to get 10, 20, 30, 40 percent of share. We're at 2, and it's a great enabling business. It has very healthy gross margins and double-digit operating margins. And so the first thing we want to do is make it part of every business we're in. Every time we sell a PowerEdge server, which has got native 10-gig down, what are you connecting to? All our storage devices are 10-gigabit. What do you connect it to?

And so it's enabling business to everything we do and we want to drive real end-to-end performance, we need the network. And then when you think about things like Converge that Michael spoke to, it is super critical. Secondly, that whole sector is going to dramatically change. And so Force10 is a fantastic technology because it has leading 10- and 40-gig top-of-rack capabilities, but it was already leaning into the flattening of the network.

And so when you look at products like the Z9000, the distributed core, that is the kind of technologies that Web providers are even adopting today as they flatten the network.

And then, lastly, we want to participate even more aggressively in the disruption because we think software-defined networks will have to emerge because today the network is too much physical and everything else in the data center is going virtual, and we're going to participate.

Just briefly on the campus side, we found that when we bought Force10, our campus business, our PowerConnect skyrocketed. I think this last quarter we grew 46 percent year-over-year, it just added more and more credibility to what we're doing.

That area is going through a lot of changes of its own where campus and branch, the network that connects to the data center is moving from a wired to a wireless. And so we want to participate in it as well. The partners will be very important in our strategy there. But then again, software-defined networks are going to be very important in how you manage that fabric in connecting all those mobile end points. And then when you look at what Jeff's doing and Tarkan on VDI, we really think we have a fair number of clients and mobile clients that we think is a big leverage point and is an opportunity, again, to inflect here. If we inflect just a little, this could be a hugely accretive part to our business.

ROB WILLIAMS: Yeah. Michael talked at the beginning of the meeting about the idea of converged data centers. And it's, obviously, a big part of -- you know, it's really not about LOBs, it's not about products, it's about the convergence of the solution broadly across a number of different areas, security, software, you know, the lines of business et cetera. How does that all fit in for you, kind of bring it back together specifically as it relates to your target of $15 billion for your revenue?

BRAD ANDERSON: I mean, I mean, I think the way I think about it is we're trying to build a very different enterprise company than others around there and really leverage our strengths here. And, again, I think it's end to end. And to design things much more holistically and really take advantage of this better together where the components are optimized to each other rather than just kind of interoperable.

And so what Michael shared with you was our next-generation convergence solution. And this will be one of many that you'll see going forward that kind of epitomizes the kind of company we're trying to build.

And so what you kind of see up on this graphic here is we took an M1000e, the most power and cooling-efficient blade chassis there is in the industry, we now have the ability to plug quarter-height, two-socket blades. So now it's the most compute-dense configuration in the industry. We have integrated our Force10 40-gigabit switch, the first 40-gigabit switch in a blade enclosure in the industry. And then on Monday we announced kind of the latest piece of this is a full EqualLogic basically PS4110, full enterprise capability. All the software that runs on EqualLogic runs on this device. If you look at all the converged solutions out there, first thing is storage is not part of it. Storage is typically external. And the ones who have put some storage in, it's been typically DAS, and it's not been enterprise class.

This is true enterprise class, and then you wrap this all around with a common chassis management console that also takes advantage of all our management strategy where you can plug into open view, you can plug into vCenter, you can plug into all the other frameworks out there. So we are not locking you into saying, hey, I've got to go adopt your management framework top to bottom to really take advantage of converge.

I think this is just an example of the kind of company we want to build, which will be a very different enterprise player.

ROB WILLIAMS: Great. Thanks, Brad, thanks for that overview and thanks to the rest of the members of the panel here.

Q&A SESSION

Jeff Clarke, Steve Schuckenbrock, Brad Anderson, John Swainson, and Rob Williams

ROB WILLIAMS: Let's go ahead and open it up to Q&A with the audience. And so let's start with Maynard.

MAYNARD UM: Thanks. Maynard Um, Wells Fargo. Two questions: What's the risk of the new offerings like cloud services and desktop virtualization to the traditional client-server storage businesses, and what have you embedded into the outlook?

And the second question: Steve, you talked about your revenue targets. How do we think about the operating margins given mix. I think Perot was running a 7-percent operating margin, can you just talk about the trends there, excluding the hardware support, thanks.

JEFF CLARKE: Do you want me to take the thin client or services?

STEVE SCHUCKENBROCK: No, go ahead.

JEFF CLARKE: I was going to say, when I looked at the thin client opportunity in user computing, the impact, what we see is customers moving some workloads towards this different computing model, alternative computing.

I look at the size of that market opportunity. It grows to $3 billion on the thin client hardware side against $235 billion of notebooks and desktops. I'm not thinking it's a large cannibalization.

That said, we're going to continue to invest and differentiate on our notebooks and desktops for the commercial side. And if you haven't heard consistently enough from us, all in on end-to-end solutions for alternative computing models, which I actually think will, over time, extrapolate into the consumer business and be a disruptor long term.

STEVE SCHUCKENBROCK: You know, in terms of the margins in the services business, we're not going to get into the specifics at a LOB level of what the individual margins are.

I will tell you that as a goal, even one of the lines of business that I talked about should be accretive to Dell's commercial business. And I think that we will achieve that.

ROB WILLIAMS: We'll keep it right here, Mark?

MARK MOSKOWITZ: Thank you. Mark Moskowitz, JP Morgan. Two questions, one for John and one for Jeff.

John, my question is really kind of two parts here. You had a really good track record in the industry, also being very disciplined and patient in your approach. As you are now only here for a few months at Dell, do you think there's a need to maybe be a little more accelerated in terms of the acquisition strategy around the software business just because there aren't that many assets left and there are a lot of big players out there who could maybe go scoop up those assets as well?

The other part of the question is: How do you see the recurring revenue component of the software business evolving over time at Dell? Will it be similar to the software industry in terms of around 50-percent recurring?

JOHN SWAINSON: I'll answer the second one first. As you know, Mark, that's a function of the maturity of the solutions. And to some extent, that's going to depend on whether we end up acquiring sort of anchor tenants with more mature portfolios or end up buying sort of a string of pearls and have less mature portfolios. In any case, the end point will be the same, it just takes longer to get there.

There's a sense of urgency. I mean, you saw the numbers that Brian portrayed up there. Underlying that, there are assumptions about how we do M&A. I can assure you that there's more than one path to get there. There's more than two paths to get there. So we're not going to be constrained by a sort of critical path through the marketplace that says we have to buy this and then that. That's not the way the market works anyway.

We have defined a pretty broad set of areas of interest. We're investing in those areas of interest. We're going to invest organically, and we're going to try and fill that in. Whether that's through a larger rather than smaller transaction remains to be seen just based on the opportunity. We'll remain disciplined in that. We're not going to chase valuations. We're going to look for great-quality assets that can benefit from coming through our distribution capability and that we can ultimately integrate into a platform. And we're not going to pay premium prices for it.

MARK MOSKOWITZ: Thanks. And then my other question for Jeff: Just in terms of how we should think of the evolution of the tablet at Dell. You mentioned earlier the XPS and how you're building our incremental production capacity. It does sound like it's doing quite well in the market, but it did take about four years to kind of catch up with Apple. Will it take similar time in terms of three to four years for your tablet to catch up with Apple as well?

JEFF CLARKE: That's a really good question. Catching up to Apple would be a lofty goal. Apple's play, you know far better than I where it's oriented. Our play is going to be a differentiated solution for the enterprise. It's going to be a subset of the overall tablet marketplace. Do I think it's reasonable to think that we should have a tablet share or tablet position that's commensurate with our corporate notebooks today? Absolutely. That's our target.

We will attack it with two different brands, our Latitude brand and our XPS brand. Our XPS brand will bring Steve's services and capabilities to differentiate it from a consumerization point of view, and then we will build a set of purpose-built tablets with the latitude brand targeted for education, for the financial market, for the healthcare market that really is unique to those requirements.

ROB WILLIAMS: Good, thanks, Mark. David, let's go over there. Kulbinder?

KULBINDER GARCHA: Thanks. It's Kulbinder from Credit Suisse again. A couple questions for Jeff. On the client business, can you speak about where we are on the various supply chain initiatives? I think this time last year you said that by the end of this year you'd have 50 percent on pre-config, 70 percent on shopping, 80 percent standardized configurations. Have we see most of that? And then what further cost initiatives do you have to take a billion out of this business? Can you specify them?

And then there's a question I have on tablets. If by fiscal year '16 you're $1 billion of revenue, maybe that's two million units, basically at that time, maybe that's a tablet market share of less than 1 percent. My question is: Why even bother?

JEFF CLARKE: Let me go in order. So I thought I covered the progress we made on the supply chain side and the cost initiatives I've spoken about for the past couple of years.

We have over 50 percent of the units shipping today are pre-determined configurations. So well past marks that we set. We have over 70 percent of our manufacturing done through contract manufacturing, so we've changed the fixed cost and variable cost nature of our manufacturing model.

We are now approaching industry-leading levels of the percent of our product in some businesses on the ocean. Our ocean shipments year over year grew 60 percent. We've created a new capability around ships faster, the ability to take an order today, it ships tomorrow. That business grew 40 percent year over year.

I thought I'd mention, and that business, ships fast, drives a greater customer experience or a greater customer acceptance with our product portfolio. We still see an opportunity which I tried to speak to that that continued and we can build upon that. Building upon that means we're going to look at, increasingly, in the manufacturing or supply chain side, freight becomes a greater component of the cost of goods sold to manufacture and deliver the product. There's optimization opportunities, consolidation opportunities. We're driving very aggressively in go west in China where there's opportunity there that I mentioned. We just shipped our first notebooks out of Chengdu a little over a month ago.

We have opportunities around more complexity reduction. I don't think we're done reducing the complexity of the portfolio of products. We can continue to see benefit from that in the simplification to our sales force, how to position and sell our products, which will drive subsequent SG&A opportunities.

We still touch too many orders in Dell. The more we make that frictionless, the more cost we extract out of our infrastructure, and I think those are sources of opportunity for us to ultimately deliver on this billion dollars of incremental cost in the structure of how we conduct the client business. And I'm pretty optimistic that our line of sight, the work we've done for the past two and a half years, we actually achieved three years of cost reduction in two years as we exited last year. We continue to see that moving forward.

And we also have made tremendous progress in the warranty cost, i.e, the quality of our products is vastly improved and we're seeing a benefit from that. So I think that was the first part of your question. Second part was tablets, is that correct?

ROB WILLIAMS: Correct. Correct it was based on your earlier share number, your earlier numbers.

JEFF CLARKE: Well, I'll let you do the math. From a zero space to a billion dollars of incremental revenue with an audience that doesn't think the PC business grows that much, I think that's a reasonable number to put on the board. I can tell you the internal target is a little better than that. It would be commensurate with our Latitude share and corporate notebooks.

ROB WILLIAMS: Good. Thanks, Jeff. Let's see, shift around, Shannon?

SHANNON CROSS: Shannon Cross, Cross Research. A question for Jeff and Brad. How are you thinking about ARM versus Intel within client and the data center? Just curious about the benefits, timing of the benefits and timing for those benefits. And how do you think Dell's going to leverage ARM technology across its product set? I'm also very curious if you've heard requests from many customers for ARM-based technology within the data center at this point.

JEFF CLARKE: Go ahead.

BRAD ANDERSON: Let me start here. A couple weeks ago, we made an announcement where we are shipping what we call our copper systems, as in our DCS, which are ARM-based. And those are not, if you will, for revenue, but those are to enable the ecosystem.

We have had ARM systems in our labs since 2009. We ship micro servers and low-power servers today. We're pretty bullish. Now, the ecosystem has to build out, and so you're seeing a lot of energy on our part to build out that ecosystem. We have customers today where we are shipping ARM-based systems for them to do development work because we do see interest.

Right now on a per-core basis, the performance of ARM to, if you will, Intel-based technologies is probably about 25 percent. But when you see -- when we get 64-bit and beyond, it's not unbelievable to see that being north of 50 percent here in a generation or two.

So when you're about a tenth of the cost and a fraction of the power, it begins to open up some pretty interesting use cases, and that's where we already see early interest from our customers, and we're working to put that ecosystem in place because, obviously, it's most exciting to us if it's a volume play rather than a very point solution.

JEFF CLARKE: I'll add to that. You asked this question last year, didn't you? (Laughter.) It's the same one. I think I have a very similar answer: What better time to be designing products and looking at innovation than right now? You have Intel trying to figure out how to make its products more power efficient, while you arm ARM cores coming up in performance, and what you have is probably more choice than we've ever had in the industry to drive different interpretations of form in the marketplace.

Brad said we've been looking at ARM for a long time. We have. We actually in Wyse have ARM products shipping today. We've had ARM product in the lab for a long time. When I look at what's going to happen in the collision between four and seven watts and the types of tablets and notebooks and all of the ones that we're going to be able to build over the next couple of years, it's great to have choices and we'll have more choices over the next five years than we've had in the previous decade.

ROB WILLIAMS: One thing's for certain, there's never a dull moment in technology.

JEFF CLARKE: That's for sure.

ROB WILLIAMS: That's for sure. Okay, next question? We'll go to the far side over there.

QUESTION: Thank you. I'm with Global Equities Research. I have a question on the market environment. I was wondering how you can react to that. Windows 7 launch versus Windows 8 launch. If you look at the market conditions then and now, Microsoft product is priced at 149, Apple OS $19.90, down from $29. Chrome OS is free. In that situation, how do you see these market dynamics playing out for Dell?

Second, if you look at the distribution channels, we have Microsoft opening their stores and all the computers that are sold through Microsoft stores have no bloatware, that is no trial ware, that has been a very bad experience for the users. Now, if you look at the same computers being sold at Best Buy, they are loaded with bloatware and you pay $80 or so to remove that.

In the situation where you have a very pristine, very good operating system and device experience out of Microsoft stores versus other channels. And the bloatware is injected either a distribution channel or through the OEM. How do you plan to control the user experience on two fronts? Number one, the pricing dynamics I mentioned, and number two, the channel through Microsoft store which, in a way, may have some sort of a conflict with other channels. Any thoughts?

JEFF CLARKE: Let me see if I can wade through that one. First of all, I would answer and try to reinforce the opportunities with Windows 8 I think are quite attractive. When I look at the type of product -- and forget timing, I look at the type of products that are always on, always connected, improve battery performance, improve overall performance, driving consistency in the management stack and security stack, particularly around our commercial products from small devices to larger devices, it's quite promising. And the ability to actually tie into John's software stack around mobile device management, notebooks and tablets and other types of devices and the Microsoft ecosystem with Windows 8, I think is an opportunity to differentiate particularly with our emphasis around the commercial marketplaces.

I think touch is an exciting new way to use a computer. Whether that's an all-in-one large flat panel, whether that's physically how you use the tablet today, or for that matter the clam shell. We're going to see innovation and movement of the platform around that and the ability, actually, to drive the ASP to a certain degree. The technology costs money. If you want touch, you're going to pay for it.

So I look at the Windows 8 landscape as a pretty exciting opportunity. Windows 7, when I look at our business customers, roughly 35 percent of our business customers have migrated from previous versions of Windows to Windows 7, still a long way to go. Windows 7 is still the fastest ramping operating system in Microsoft's timeline.

I'll let you talk to them about pricing. The pricing is an industry cost that we work through. What we do in our factories and our loads, we actually remove the bloatware. We put on what we think customers want. So when I look at the products leaving our facilities for our business customers, our XPS product, as we've looked to clean up that front-of-screen performance and experience, we've seen a tremendous improvement in the customer experience. Part of what we're seeing is our ability to meet those customer needs and changing that. We will continue to do that.

ROB WILLIAMS: Thanks, Jeff. I think that got it. Keith?

KEITH BACHMAN: I have two questions, please. Going back to the tablets for a second. When you talk about $1 billion in revenue versus 33 billion in client, so you're talking about 3 percent of your revenues are going to be driven from tablets. So I'm trying to understand what that suggests. Are you suggesting that the tablet adoption won't be prolific in corporate? Or you're going to cede share, and if that mix is wrong, and let's say tablets are a bigger number, what is the margin implication that would fall out from that? And then I have a follow-up question, please.

JEFF CLARKE: Sure. I probably don't have an overly sophisticated answer for you. There's little upside in this room to commit to a revenue number on tablets that doesn't exist today in Windows 8. I think it's pretty base case. I'm certainly driving at a much greater business than that. Again, I will point back, when you look at our presence in the commercial notebook space, there's no reason to believe we can't have a similar share of commercial tablets.

I think that will be larger than $1 billion, but the $1 billion is the number on the board.

KEITH BACHMAN: Okay. And if you think about what the margin profile of the vendors out there, if tablets does become a richer mix, is that neutral, negative, or helpful in terms of the margin profile?

JEFF CLARKE: I think margin tablets have the potential to be as strong in the commercial space as our Latitude products. When we bundle ProSupport, CFI, we put a security stack around them, we address the needs of businesses today that are partially being met in a much more comprehensive way with a full MDN stack and, again, a set of services Steve is building, customers will pay for that value add, it's been our experience. There's no reason to believe that margin profile for business tablets won't be similar to a business notebook.

STEVE SCHUCKENBROCK: Yeah, let me reiterate that point. I mean, just take the XPS13 as an example, brand new product in the marketplace, very appealing to the consumer. We announced for the first time in the consumer space business-class services with that launch, including ProSupport, which is an upgraded user experience and service level. We have a 70-percent attach rate of ProSupport on XPS13, and so it gives you an example of that consumer devices can absolutely pull business-class services with them.

JEFF CLARKE: Then you add the accessories business, you sell a bag with it, you sell a keyboard with it. That accessory business is a drag and a source of improved margins.

KEITH BACHMAN: Steve, my follow-up is actually for you it mix for services. I think about 60 percent of services is support today. Can you talk about how you see that mix changing for your 16 profile, or CY15, FY16, and talk about how that mix profile changes and/or any offsets or improvement to margins that you anticipate on a like for like to help offset some of the mix challenges?

STEVE SCHUCKENBROCK: Well, you've heard the conversation relative to the growth in Brad's business as well as in Jeff's business. And not only the charge Brian put up, but their own words around that. We expect to continue to grow the support business at a premium to their hardware unit growth rates. And we think we've got up side to be able to continue to do that. We expect to grow each of the other three businesses faster than we grow the support business. And so the mix will shift.

But, you know, as I said before, I think the profit profile of each of those businesses may not be accretive to the overall services margins because the support business is as strong as it is, but will be accretive to the overall commercial business margins.

JOHN SWAINSON: Can I add one more thing? If you look at every successful large software business, they get, on average, 10 percent of their revenue from a support model. So I think you will, in addition to that, see software support being layered into that. And furthermore, if you look at some of our enterprise-class competitors, they see at least a one-for-one attach rate, and sometimes even a two- or three-for-one attach rate on enterprise services to enterprise software. And I think you're going to see some of that as well.

STEVE SCHUCKENBROCK: Yeah, our support business is an incredible asset. Not only is it a great business in and of itself, but it serves customers in 142 different countries and 60 different languages. And it's a delivery model that is leverageable into our other services businesses. And so I think you'll see the efficiency of that model bring value outside of the historical core definition of support and deployment.

ROB WILLIAMS: Thanks Keith, next question.

ARMIT DARYANANI: Thanks. Armit Daryanani, RBC Capital. Just go back to Windows 8 for a minute. Just talk about -- do you think the PC ecosystem in its entirety will have a scale advantage versus Apple? And if they don't, would that product, the Windows 8 tablet, be actually priced at a premium to Apple? And you may run into the same scenario you did with Android devices.

And then secondly, maybe to ask Brad on the Flash side. Could you just maybe dig in a little bit more on the RNA acquisition that you guys talked about, and then broadly when you see the Flash market play out, do you think it's going to be more of a PCI SSD-based market, or more all on the all Flash Array side? And what does Dell have in each of those segments? Thanks.

JEFF CLARKE: Well, I think the net of your question is 365 million PCs provides a lot of scale. The PC OEMs are going to build tablets. I look at our own scale and supply chain side. We buy 50 million screens. A lot of memory. A lot of batteries for our notebooks. It's the same stack-up. When I think about what goes into a tablet, the key is the mechanical form, the battery, the LCD stackup. I think we're in good position to scale. We need Windows 8 in the marketplace. You'll see a lot of momentum and excitement behind Windows 8 and touch and tablets.

I've been very clear that our focus is not the consumer side of that. It is the BYOD side of those devices that make their way into business, as well as the commercial tablet. And we'll use the scale of our company and our buy to make sure those products are very competitive.

BRAD ANDERSON: On the Flash question. So RNA is a company we purchased last year. I mean, the challenge with -- I mean, the excitement we see on Flash is, again, to kind of drive the full application performance. And so if you look at Flash in a storage domain, you have the challenge of the interconnect to the compute. And so if you're only a storage player, it's kind of hard to go solve that challenge.

If you look at Flash from the compute side, you have the challenge where you have the high availability that you have by having your storage in a shared external SAN. And so it makes it very difficult to kind of solve that and really get application performance if you're only working on one side of that.

So you see a lot of storage providers and even companies who are trying to do all Flash arrays trying to solve that. It's going to be very difficult. So, in fact, you don't see solutions that provide high availability as well as the performance.

What RNA provides for us is a capability, since we have the compute side and the storage side, where we can then have high availability solutions which you can write to cache rather than have to go complete write-through to really drive true application performance, but then have all the high availability and coherency across multiple compute devices. So we can really implement it in a fundamentally different way.

You're other question is: You're going to see different implementations out there. What we're really driving is we want the Flash to be as close to the processing bus as possible because we're taking latency out of the equation, and then we also want to drive, if you will, standard form factor, because we would like to see Flash pervasive.

Today, you're seeing Flash kind of used in the 1-, 2-, 3-percent cases where people are looking at performance. We're always much more excited about things that have a much more pervasive footprint. So we are always driving standard form factors around PCIE, even our Express Flash in our 12th generation servers is like just in a hard drive. It's front accessible, it's hot-pluggable, all the experiences that customers want, you're going to see those kinds of implementations. And then on the storage side, I think there's going to be a couple different architectures out there. You're going to see us implement it architecturally such that when people look at their data, typically only about 15 percent of the data that they're utilizing is what's called hot data, data that they're constantly accessing. The rest is cold and some of it is never accessed.

We want to implement it in a cost-effective way where Flash can be a viable solution for that 15 percent data tier to drive, again, performance pervasively.

ROB WILLIAMS: Thanks, Brad. Is that Peter?

PETER MISEK: Thanks. Peter Misek, Jeffries. Just on the cloud offering, you guys have a big presence in the SMB market, true leadership there. But we're starting to see new entrants for cloud offerings, telcos, software vendors, et cetera. Can you help us understand the cloud strategy there both on-premises, private, public, and really how you see that evolving and differentiated versus those competitors.

STEVE SCHUCKENBROCK: Yeah, first, we absolutely do have a great brand and history with the SMB market and the media market that goes up fairly sizably. When you look at the cloud offerings, you know, being able to bring the technology core to the private clouds inside of their data centers, as we're doing with 321 is a phenomenal offering, and we can wrap that offering with a remote-managed experience so that we actually manage that infrastructure as a private cloud on their behalf.

Second, as you look at the public cloud offerings, there's going to be -- this is a brand new, relatively immature space, and there should be no surprise with all of the hype around it that there's a lot of entrants in that space.

I do think one of the things that's occurring with small and medium businesses is globalization. I mean, they actually -- even though they're a small business, they do work in multiple different cities, multiple different countries, and they're beginning to experience the complexities associated with how do I manage my IT infrastructure in all of the places that I want to do business. And I think a global company like Dell with the core technology capability that can support them both on-premises, in our data centers both public and private does bring a certain differentiation to them.

You wrap that with a support experience that is ranked number one in that segment historically across our hardware business and will be extended across our customer business, I think that's viable.

We will continue to pursue, as John alluded before, on what types of applications, both our own IP as well as partners' IP best serve that core market of ours. And so you'll see us do things along that continuum as well.

I think that's kind of just a net summary. I will tell you that the offering we have out in the marketplace today is off to a good start with very little marketing and very little kind of sales effort against it up to this point. We're really just kind of -- put it out into the marketplace. It's a sandbox public cloud, $999, a single SKU, get all the server, storage, network capability. You know, Gratifon is a good example. Using that capability, launching applications in one day. And we're seeing that kind of service experience really resonating quite well and we're well over 100 customers and we will soon get an online experience in front of that where customers can self-provision as well as self-manage all that infrastructure.

ROB WILLIAMS: Thanks, Peter. Toni?

TONI SACCONAGHI: Toni Sacconaghi from Sanford Bernstein. Jeff, I have one for you, and Brad, one for you. Jeff, maybe you could first just clarify in your forecast of 2-percent revenue growth for the client business what do you assume for ASPs in a go-forward basis. And then more broadly, if we take a step back, gross margins for several of the PC vendors have gone up over the last couple of years. And the competitive environment, I think, from a pricing perspective has been pretty benign. I think the component environment has been extremely favorable.

We saw some reversal of that this past quarter. You talked about incremental price competition on the earnings call. You've talked about DRAM likely going up rather than falling at 20, 30, 40-percent rates. You see it potentially being flat to up over the course of this year.

So if we think about that, is the 5-plus percent operating margin that you've kind of got in PCs over the last couple of years and that you think you can hold, what makes you confident that we didn't go through a period of sort of unusually favorable circumstances and that the real margin, base-case operating margin, is more like 3 or 4, and the incremental price competition plus less favorable components are really going to take you back down to earth on that?

JEFF CLARKE: A fair question. The first part of your question is we modeled the historical ASP declines in both notebooks, commercial, and consumer and the geographic mix of where the growth comes from in our economic model. So when you look at the history, you apply it on a go-forward basis, there are some pretty standard curves that apply. So the revenue that we talked about, which by the way on the PC side in the 2-percent case was zero PC revenue growth so it's really staying up and treading water, if you will, at the current revenue projection.

I think the real question you ask is can we sustain those margins as 5 percent really the case? We all know component costs ebb and flow. You hit it right. Memory prices and LCD prices, for that matter, are going up, although they're being deferred or delayed as we see the implications of what's happening in the marketplace.

We see stabilization around the hard drive pricing back to normal type of trajectory, and we see structural cost commodities coming down as well. But those are all the ebbs and flows of the cost of goods sold and the materials that we use. It's why I really highlighted, Toni, the billion dollars that we have to go take out in running the business. We have to go continue to find, to compete, in what will be a competitive marketplace, another billion dollars on top of all of the differences in the component cost.

I look at what we can do in the supply chain, what we can do in how we reach our customers on the sales and marketing side, the G&A side, some fundamental ways to run the business different. I'm optimistic that we have line of sight to maintain that 5 percent operating income target, taking out the structural costs, and probably one of the more optimistic ones on the PC market in general, it's going to grow.

Clearly, where it's growing is in emerging markets, which put a compression on margins and ASPs. That said, even in our Q1 performance, I believe the team called out our commercial products perform quite well. Our commercial branded client products continue to perform well in the industry. And I think Michael mentioned it, or maybe it was Steve mentioned it earlier, even things like our ProSupport attach rate continues to improve or increase. Our accessories business around our commercial notebooks and desktops continues to grow. So those are great offsets to what's happening in the marketplace and we'll continue to grow and drive that.

I think the plan that I laid out around category champions, branded product for our accessories business is an opportunity and to get a greater share of wallet. So I look at the ecosystem, by and large, as a notebook and a desktop gives us an opportunity to sell a display, a mouse, a bag, a battery upgrade, which we still see as offsets to some of the changes or challenges in the marketplace. Does that help?

TONI SACCONAGHI: Brad, if I could ask you a question. If I just try and do the reality check on the enterprise growth rate going forward, I think a couple analyst say you would put up a forecast that was more aggressive for the enterprise growth, it had an implied CAGR of high teens. If I look at the market data you put up, servers growth 3 percent according to the market data you put up, storage growth at 5 percent. I look at your last five years in enterprise and you've only grown above 8 percent one out of the last five years.

So when I put all those things together, again, you sort of ask the reality-check question of: Is 10 percent really a realistic goal? And how do you get comfort with that in light of all the things I just mentioned?

BRAD ANDERSON: Yeah. I mean, I think a couple things. One is let's kind of go through the LOBs. I mean, so servers, you know, we are planning to grow at a multiple of the market. We think to achieve that we've got to participate in these broader initiatives. We've got to participate much greater in a set of workloads that we have not in the past. I think things like BI, again, will be hugely important. We're very optimistic with VDI. The Wyse technology -- if a customer's buying on capability, we win those deals almost every time.

And historically, those are really rich deals, as Tarkan can tell, those were not Dell deals. And so we see a big upside there in those opportunities.

We have not participated in blades or converged broadly. We now have gone from not participating to where I think we have a highly differentiated offering, the only one in the market that also includes storage in that. And with John coming aboard, I just see that continuing to go better.

On storage, we've been in the business of purging. The growth rates are suppressed by the fact that we just jettisoned about $1.2 billion of EMC revenue. So if you look at the storage growth rates minus EMC, we're consistently up in the mid-20-percent growth rates. Which is accretive in the midmarket. Obviously, EMC is growing there, but the overall market, that is a multiple almost two times what the storage midmarket rate.

And then if you look on networking, you know, we can just almost ignore the market growth rate because our position is so small. Last quarter alone our PowerConnect, which is our campus branch, grew 42 percent year over year. Our Force10 grew 69 percent sequentially quarter over quarter. We don't have a year over year to compare within Dell.

So we see way above market growth rate opportunities on networking, significantly above on storage, and then we think we can do better than base market growth rate because most of the base market has ASPs declining and our early data are already on the 12th generation with Romley, we're not seeing that.

ROB WILLIAMS: Thanks, Toni. Let's take one more question before we go to break here.

JAYSON NOLAND: Thanks, Jayson Noland. Just a follow-up there, Brad, in enterprise. You mentioned software-defined networking a few times. If you could talk about that opportunity, the investment Dell can make and do you see that as something that could be disruptive in the medium term?

BRAD ANDERSON: Well, so what software-defined network is, for those -- and it goes by a lot of different names. Some of it you'll hear as software-defined network, others will hear about it as OpenFlow and the initiatives around that. You'll also hear it as a programmable network.

And the excitement about that is networking is largely physical. And so today workloads are increasingly virtual. And people want to be able to move workloads and they don't want to have to do anything to physically remap their network to connecting the workload with the data. And so there are technologies out there that basically virtualize the network. And so that's a huge game-changer and allows you to manage it very differently. In fact, it separates the data plane from the management plane so that the data plane is really easy and that management is much simpler and can be managed more centrally rather than at every individual node.

It's very early, but the exciting thing is that you look at, again, the hyper scales, which are really kind of redefining what data centers look like. They're already implementing this to degrees. They're rearchitecting the physical topology of their network, but the way they manage it is fundamentally differently.

We are investing -- we're a member of the OpenFlow forum. We are participating in that. We are designing our designs kind of looking forward. The Z9000 distributed core is a good example of it. We are doing things that make things OpenFlow enabled. There's an ecosystem out there as well. There are companies like Nicira and BigSwitch and others. We are investing to see more of those kinds of companies come forth because we are absolutely convinced that this transformation has to happen because it's absolutely fundamental for the progress, a virtualized data center, a cloud data center requires for those models. And it won't happen overnight, but I think there's a certain inevitability about this because there's just too much energy around virtualizing everything else. I don't think the network can hang back.

JAYSON NOLAND: You mentioned a couple of startups there. Do you see Dell partnering with companies, or do you want to own IP?

BRAD ANDERSON: Well, we want to partner here because the thing here is we want as broad and rich ecosystem supporting this as possible. We want the critical mass to shift to get this trend moving more quickly. At some point, having IP will be important, but the biggest thing here is getting the shift to occur.

ROB WILLIAMS: Great. Thanks, Jayson. Brad, Steve, John, Jeff, thank you very much. We're going to take a break and we'll be back in about 15 minutes. (Applause.)

PANEL: THE NEW DELL

Steve Felice, President and Chief Commercial Officer
Kim Hibler, VP & GM, SMB North America and Public and Large Enterprise Canada
Cheryl Cook, VP Global Enterprise Solutions

ANNOUNCER: Ladies and gentlemen, please welcome president, chief commercial officer, Steve Felice. (Applause.)

STEVE FELICE: Good morning. I have the privilege of running this last session. We changed the name of it; it's now called "Steve is going to talk about this." (Laughter.)

I hope I'll get to a lot of your questions. I'm going to start off by addressing a few of the questions that I've been getting, the primary questions over the last couple of months, and then I'm going to have some colleagues join me, and we're going to talk about some of the growth opportunities that are facing us and where we're really focusing.

So, first, let's talk about the first question I keep getting, which is, okay, you've been in this role now a few months and you're out in the field; what are you hearing from customers, what are you hearing about how it relates to Dell's strategy?

And I have had a great opportunity to visit many, many customers, thousands, literally around the world, and I've had some great interactions with them, and I feel really good about how our strategy resonates with these customers.

This whole concept of the scalable design point is a big deal, because it really does relate to efficiency, effectiveness, agility. And especially in this economic market this is a time where customers really want to hear that story.

And there was a question earlier that related to, well, which customers does that resonate with. Well, the ones it resonates with best are the ones that are open to change.

So, it's true that when we go into a customer that's got a very entrenched position in deep proprietary architectures and they're not interested in moving, it's a tough sale. But once the crack is set, once there's an opening about maybe I should do things a little bit differently, maybe I should embrace open systems more, this is wide open territory for us.

And a lot of the products that we've designed and the acquisitions that we've made really epitomize this concept of scaling, because I think some people have the impression that, well, these offerings are just set for mid-market, but we have plenty of cases where these products are moving across the customer set.

And I'm meeting with customers that are Fortune 500, they're universities, they're hospitals, they're small businesses, and we have lots of examples. For example, let's talk about KACE. KACE originally was built to focus on a mid-market set of customers, and certainly that was the predominance of their revenue stream, but now we have Virginia Community College with 30,000 nodes, we have NASA with 100,000 nodes using KACE for systems management.

Boomi, originally designed at the mid-market, and that's where most of their revenue was from, now we're using it inside of Dell to connect our applications as we migrate into more cloud-based applications ourselves. And we have One World Alliance as a customer, the largest affiliation of reservation systems using Boomi to connect them.

We talk about building block servers, and we talk about the scale of 3-2-1 for the medium business, and then we also talk about building the most sophisticated data centers for eBay using building block servers now running all of their transactions.

So, I think of the scalable design point as aspirational for the larger enterprises. This is where they want to go. Their biggest question is how do I get there, and the services that we have now is a great addition to the portfolio because you think about apps modernization, for example, this is a way to help them get there.

So, the strategy resonates, we feel very good about it, we're not changing that, we're committed to it, and all I'm hearing in the last few months is a validation of that from customers.

Now, related to that, and the second question I get and probably most questions I got last night have to do with, okay, well, then what's the issue with go-to-market, why do we say we had sales execution issues. So, I want to talk about that.

And, you know, I'll say upfront right away it's difficult to have that conversation where you're trying to not to share what I would call really sensitive competitive information, but we're trying to be as transparent as possible about this.

So, I think I'll talk to you about this the way I've been talking in town halls over the last few months, and I've had lots of them, as we get this workforce positioned for high growth.

What we talk about is the tremendous change that's occurred over this company over the past few years. We talk about the fact that about five years ago two-thirds of activity, two-thirds of revenue was a pure PC, and now several years later with a much larger revenue base, 50 percent of this revenue is not a PC, it's servers, it's networking, it's storage, it's systems management, it's security, and all those services that wrap around it. That's a major change for our people.

Customers value this. We've seen margins go up substantially over the last couple of years. It resonates well. But it's a difficult selling motion for our employees.

On top of that we've changed the organization several times as we've adopted and moved to the new strategy, and I'll talk about that migration in a little bit, but we've had several organization changes, one very significant one in the beginning of this year.

And then on top of that we've acquired a lot of businesses, and we've increased the portfolio of what we sell dramatically.

Now, our salespeople love that, they love being able to have a broader conversation with the customer, but when you put all these things together it's pretty complex. And we implement this in a pretty accelerated fashion, and some things have not been optimized. And I'd say one of the biggest challenges about doing it right now is that it's not like you have economic tailwind. So, you also have to be very precise in what you're doing, because if you miss the mark on anything, there's not a lot of tailwinds in market growth to kind of make up for some of those errors.

So, we uncovered several things over this past quarter that we're rapidly fixing, and I think everyone is aligned on what we determined and how to fix it.

For example, as we were mobilizing the workforce to address a lot of the customer demand in the pipeline we found ourselves allocating too much resource to too few of the opportunities in the pipeline. In other words, there was a lot of whitespace that we weren't properly covering. So, we left the acquisition of new customers uncovered in too much of a significant way, both in terms of specific customer sets and certain geographies.

We also created a number of specialists as you saw from Michael's discussion, 6,600 specialists.

Well, we're learning about how to best utilize them, and the best way I can describe this is we had found some cases where our sales calls with a customer were involving way too many resources. It's kind of a natural thing; you have networking, you have storage, you have services, you have compute, and a lot of the specialists were basically directed to participate in all these opportunities.

Well, we learned that it's not necessary to have everyone involved in every opportunity. There are many cases where a storage specialist is perfectly able to cover the networking needs, so you don't also need to bring the networking specialist in. So, we found a lot of that, and once again that resulted in inefficiency in terms of too many people involved in opportunities.

And the last thing we determined was that as we've acquired all these companies, we've been ramping them very quickly, and very successfully, as Brian pointed out, achieving the internal rate of return that we're looking for, but we found ourselves focusing too much separately on the individual pipelines of these businesses rather than optimizing the ability to wrap them around our anchor products.

Now, the end results of all of this is a delayed sales cycle, because as I said in the earnings call our pipelines are healthy, and they are. This is a question of how do you wrap your arms around getting at all of them in an efficient and effective way and getting them closed.

So, we've been taking a lot of action here. We've moved hundreds of resources already to different geographies, different markets, different customer sets. We have more to do there.

We probably have to reposition a couple thousand people out of this 20,000 that we've talked about, but we're well on our way there.

We've simplified the messaging quite a bit. We've really done a very effective job of taking too many messages, boiling them down into a core set of key messages, and getting them out to our sales force.

And we've also spent a lot of time on these what I call anchor bundles, so taking the anchor products of Dell, the core products of Dell, and wrapping the new acquisitions and the new services around them so that you can have a more comprehensive conversation with the customer.

All of these things are in full flight, they're going well. I believe we'll continue to see progress. I got a lot of questions on how long is this going to take, you know, and I believe it will take the full year to get all this in place, but it's not a back-ended thing. We're making progress as each week and each month goes by.

Now let me go to the third topic, which is to talk about, you know, tell us more about this go-to-market organization that we've moved to, and I think it's good to put this in perspective of the several changes we've made over the last three or four years.

For the longest time in the company's history we were managing the business on more of a regional, classic regional basis with the Americas and Europe and Asia, and then a few years ago, we went to these global organizations around major customer sets: consumer, small and medium business, public, large enterprise.

Now I like to think of it as getting to the best of both worlds. The regional organizations give you a much better insight on how to compete locally. The customer segment structure has really been fundamental to us developing a more vertical approach to the business, and I think it's really thrown up great benefits. Some of that you heard yesterday when you heard Frank Muehleman talk about how we've applied technology to health care or education or government, or Bill Rodrigues in his session with the services team talking about how to develop specific solutions around finance, for example. And then, of course, you've heard repeatedly about how we've developed specific solutions for SMBs, and over the years since forming that structure we learned what a powerful representation we had with SMBs. So, I think that's been really transformational for us.

Now we want the best of both worlds. We have broadened our LOBs. We now have four of them with enterprise and software and services and end user computing. We wanted to simplify how those four organizations interact with go-to-market; in other words, don't have them have to negotiate separately with different go-to-market organizations, it becomes extremely complex. So, we created one go-to-market organization, integrated all the marketing capabilities, and now we're still focused on those four customer segments but within a country focus. So, within China we look at consumer, small and medium business, public, large enterprise, within the U.S., within Germany, within France. This is where the competition really happens, this is where you can vary the offerings to fit the competitive situation.

We've tested this when we did the original combination of consumer and SMB and it had great benefits. And so you will see us continue to roll in this method.

And what that means is we have what we refer to as country playbooks that basically look at these four LOB offerings, the four types of customer sets, and what's the best way to optimize our performance there.

That enables us to focus on these growth initiatives that we're going to start moving into this conversation on.

We want to talk about three of them. I'm going to start with the first one, which has to do with emerging countries, and then we'll invite some colleagues up to talk about medium business, mid-market, and enterprise solutions.

Now, Dell has been investing in emerging countries for quite some time, but really when I look back, I know Michael was off to Japan I think within a year of forming the company, but I think about over the last 10 years is when we really intensified our focus on emerging countries, and it's really shown in our results. You know, it's now 28 percent of our revenue. Last year, we had 12 percent growth in the emerging countries, and specifically in BRIC 15 percent growth. You can see that Brazil, China, and India now comprise nearly $9 billion of business out of our total portfolio. But what's really important is that our brand recognition in the emerging countries is outstanding.

The other benefits we have about emerging countries is they're not laden with legacy architectures. These are companies that are starting from scratch and they're starting with new technology, banks in China that start with X86 servers.

So, when we go into these environments and we talk about open standards and scalable computing, it resonates really well. That's why IDC reported last quarter that in Brazil we're number one in servers across every segment, whether it's SMB or public or large enterprise.

And we have a terrific position in a number of countries around the world. We're number one or number two in India, in China, in Brazil, and there's other countries that we're starting to focus on. For example, we're now number one in Poland, and this is a country that is starting to have a sizable spend on IT and a sizable GDP growth.

So, we've now increased our focus to another 10 countries that we're applying these same principles to.

And when I talk about these principles here's a couple of examples of what it takes to be successful here. This is not an overnight put a sales force in and they just start selling Dell's products. If you really want to have good profitable growth in these countries, it's a combination of adding capability, recognizing the local needs of the market, building a strong set of government relations, adding infrastructure, and even in some cases really focusing your marketing campaigns. India is a great example where it was the beginning of the whole "take your own path" campaign that turned into a global campaign aimed at SMBs. It started in India.

So, these investments take time but we know they work. They've paid off for us. There's an inflection point where you might go for four or five years of this investment and steady growth, and then all of a sudden the growth takes off, and we saw that in India and we saw that in China.

So, emerging countries, as Jeff pointed out, is really going to be the fastest area of growth. We keep talking about the percentage of growth but in absolute values it's going to dwarf the developed part of the world. The middle class alone will be sizably bigger than the middle class within the developed world, and the growth rates are really stunning when you look forward, and that's why Jeff is so optimistic about the PC business, as am I, because the adoption rates are low and this is a natural progression for them. So, we see great opportunity there.

But the other point I will make is that these countries are growing in a pretty sophisticated manner, and we're seeing a lot of storage and server and networking growth in these markets as well.

And now we want to talk about these other two areas of growth, so I'm going to invite Cheryl Cook and Kim Hibler up to the stage to join me. (Applause.)

Okay, so for those of you that have not met Cheryl or Kim, Kim runs our North America SMB business, and Cheryl is the global leader of our enterprise solutions. So, she's the one that's leading the enterprise sales with all the specialists. So, you may have a lot of questions when we get to the Q&A about that.

But let's start with Kim, and talk about SMB more. And Kim, what I'd really like you to talk more about is this whole mid-market focus, scalable design point. Talk about how that resonates with these customers.

KIM HIBLER: Be happy to.

You know, it's estimated that between 60 and 80 percent of all jobs, new jobs created come from small and medium businesses. And so one of the things we've really found about focusing on small and medium businesses is that trusted advisor piece is really important. So many of the companies start off small and then grow, and it's great for us from a standpoint of the scalable approach that we have with them.

We really start off focusing as a trusted advisor, and you've heard today about resources that go out and talk to the customers, and we have AEs that support, account executives that support these customers, and they build long term relationships with the customers.

And what that means for the customer overall is that they really get a chance to interface with resources at Dell but really understand some of the industry solutions that can help them grow.

I think one of the things that resonates most, Steve, with the small and medium business customers is it's really focused on implementing to their needs and their solutions based on simplicity and also having open architecture, different capabilities and offerings for them.

You know, one of the things that we're also seeing is that it's really important for us to help them understand how these relationships can grow their businesses.

STEVE FELICE: Yeah, and I think the fact that we have a direct relationship with these customers is a real form of differentiation. So, we have a very healthy channel but there are many SMBs that love having that personal connection with the manufacturer.

Why don't we talk about narrowing the focus here to a sub-segment of SMBs. We've been very, very active with entrepreneurs. In fact, just a few days from now we'll be in India with 200 of the leading women entrepreneurs at the Dell Women's Entrepreneurial Network Forum.

Talk about why we're focused on entrepreneurs specifically.

KIM HIBLER: I'm happy to.

I love working with entrepreneurs and, you know, it's a real simple conversation to start working with our entrepreneurs because it's in our DNA, and we believe that we can really help them understand. And as you heard in earlier presentations, because we utilize the capabilities and technologies that we offer, it's a really great conversation to have with them.

You know, it's estimated that about 30 percent of all entrepreneurs start their businesses with credit cards, and so we've developed some solutions around financing that can help them get started very simply around an announcement we had last week around innovation credit line for customers, $100 million invested into entrepreneurs. We also do a number of things around leasing to help entrepreneurs get started. But we really believe that the entrepreneurs are leading in the small and medium businesses and will be the gazelles that will help us grow overall.

And so not only do we have the Dell Women's Entrepreneur Network or the Women Network, last night here in Austin we awarded our Social Innovation Challenge to students that started off with over 1,700 students, and last night was a grand award ceremony where we recognized five student teams that are doing social innovation, and now they'll work with Dell really closely and we'll partner with them through both technologies, through an award for their project but also through mentorship.

You know, we find that entrepreneurs are very loyal, and they grow into be small and medium businesses that really stick with us and understand our technologies.

STEVE FELICE: Yeah, when you dissect the small and medium business you find that the vast majority of employment increase comes from the entrepreneurs' sub-segment of this. So, as we increase that loyalty, we just grow right with them.

KIM HIBLER: And they have a really strong network with one another, and so they share that amongst their entrepreneur networks also.

STEVE FELICE: Yeah, I've been amazed by that, because we have a lot of events with entrepreneurs, and it's amazing who they attract, and they become some of our best references. So, this has been a great movement for us.

Let's talk a little bit more about solutions and how solutions play within SMB.

KIM HIBLER: The solutions in SMB it's really a lot of fun. I have the opportunity to engage the sales organization with customers all over, and one of the things I find is that the customers are really interested in the solutions. We had some exceptional growth last year in both services and our enterprise organizations.

But one of the things that also happens is the customers are very quick to adopt the new technologies. So, we talk a lot about Wyse and the brand new implementation of Wyse. We start off trying to get the teams going with this and they grab onto it really quickly, and now it's getting to be where we get orders very quickly as soon after we announce integrations.

But back to kind of some examples around our solutions offerings for customers. Because we have this trusted advisor approach with customers, it's really easy for us to have conversations with them.

And so we started a program called Preflight when we were focused on EqualLogic, and how we can improve the customer relationship. And by offering Preflight to a customer, meaning we would pick up the phone, we would have a conversation with them well before we even deployed anything, and as their equipment was getting ready to arrive, and we were able to improve the customer's experience greatly.

We've also found that where we have services people engaged with the team, the Net Promoter Score or customer experience goes up 15 percent.

And then finally, we found that where we have that relationship with the C level executives in the accounts, our share of wallet significantly increases.

So, it goes back to once again just having that trusted advisor relationship with our customers.

STEVE FELICE: Yeah, the growth in solutions within SMB has been terrific.

Now, Cheryl, let's expand the solutions discussion and talk about how enterprise solutions are doing overall in the business.

CHERYL COOK: Yeah, absolutely, thank you.

Well, as Steve commented and we said earlier, we're really building out our capabilities, not just from our portfolio and the assets and the IP that we're developing and acquiring, but also in our go-to-market capabilities around just making sure that we put the right expertise and the best acumen in front of our customers so that we can help solve their business problems with our increasingly expanded portfolio.

So, we've talked about sales specialization, and Brad spoke about some our new leading edge servers and our 12G launch, but we've really had a phenomenal time to market advantage around bringing that new capability to market, and what we've done is been able to position some of the new capabilities with the 10 GigE embedded delivery of the 12G server around a 3-2-1 sales motion. I think Steve spoke to it or Michael did earlier around where we can broaden the opportunity to show the breadth of our capabilities and solving a solution, not just with servers but inclusive of switches as well as the storage to do that.

We have our vStart initiatives which is really where we're bringing to bear the tried and true, tested and certified capabilities of really implementing virtualized data centers and virtualized workloads that we can prove to a customer has already been tested through the hundreds of thousands of deployments that we've done, and we can within a rack really put servers, storage, and networking, as well as the management software there, and can show small, medium and large implementations of where we've done virtualized workloads to really satisfy their needs.

And then as we really look into our storage specialists and capabilities, we are absolutely competing with some standalone pure play providers out there, but we're really bringing a position of strength from our EqualLogic market leading position we have there, and showing the innovation in the way we're approaching storage and some of the capabilities we have with our fluid data architecture, the dynamic tiering capability and thin provisioning, and we really fundamentally think that we're showing a leading position around helping companies realize their virtualized aspirations.

And these storage specialists can really team with our generalists and account executives to help broaden the overall data center solution and architecture but also if it grows into a data backup and recovery architecture where they need the expertise and the talent to really help us position that more effectively.

And then we also have networking. Some of these resources certainly have come to us through acquisition, but we've also been hiring and building out the capability from within the industry to really go drive the capability to broaden the offering for our customers as we do that.

This week, I know Brad spoke to and I was also at our storage forum in Boston on Monday, and it was a fabulous example of really bringing the converged infrastructure, which we know is a growing trend, to market. We launched our first ever storage blade at that event, but really had the opportunity to speak to both customers and partners around the implementation of where we now within an enclosure and our blade chassis have compute, storage and networking, all managed and co-residing in this implementation.

And we spoke about the channel and how the channel helps us with go-to-market as well. We have a pretty broad ecosystem of some storage partners that came to us through our Compellent and EqualLogic acquisition. But even at that event when I addressed the room, you know, most of the audience -- we had about 350 channel partners present at this forum. Seventy-five percent of those partners in that room were already certified on our server capabilities, 48 percent of those in that room were certified in our systems management offerings and capabilities, and 40 percent of that room were also cross-certified in our networking capabilities.

So, we're finding that that ecosystem of our partners are really general infrastructure providers anyway that can add tremendous value to us as we team with both our specialists that we're bringing to market on a direct basis, as well as the channel partners.

STEVE FELICE: So, related to all this, we get a lot of questions, I got some even at the break about how do we manage all this. Talk a little bit about the governance process, the management system.

CHERYL COOK: Right. So, Steve commented about just the complexity and how we're trying to keep simplification while we're balancing the right level of expertise and acumen really at the right opportunity, and what we have found is that we're driving better governance around just pipeline opportunities both in net new customers, how do we ensure that we have some of our specialists driving accretive or whitespace coverage, as well as just training with our generalists on how to qualify better so that we don't necessarily have to have a single expert or a technical resource from our specialist community on every opportunity.

So, we've got cross-domain, if you will, or solution architects deployed in the field that can speak to servers, storage, as well as networking, and we're running just our implementation from a business management system around pipeline inspection. We're driving pipeline metrics and measures, if you will, across both participation of our specialists but as well as our core generalist team. We're also driving net new buyers and net new customer acquisition, and really driving our messaging and our sales motions to be more simple.

So, we're looking at some of our specialists and how to broaden the aperture of the resources that they're positioning.

For example, I think we gave in our storage sales force you can't really configure a nice complex SAN storage deployment without configuring the switch, and we don't need to bring to bear networking resources to help us do that.

So, we're absolutely driving that as well as kind of the converged infrastructure motion that really touches servers, storage, and networking as well.

STEVE FELICE: Yeah, and I think the most important thing, and Cheryl, you've added a lot to this since coming on in the beginning of this quarter into this role, is putting this in a standardized way globally rather than having too many different ways of measuring this effectiveness. So, I think that's helping us sort through some of the discussion points we talked about in this transformation and how to get more efficient.

CHERYL COOK: Well, we've had a lot of learning and, you know, you spoke to kind of we're in a common global coverage deployment right now. So, we can look at what's working and best practices for us in either public sector or in small and medium business, and leveraging those capabilities on where we've competed most effectively against the competition, and really deploy and implement those globally. So, we are seeing the leverage, we are able to really capitalize on the best practice sharing where we are seeing it implemented more consistently.

STEVE FELICE: That's great. So, one last thing. Why don't you talk about broader solutions. Kim talked about the SMB-oriented solutions. Talk about how some of these solutions are scaling up to larger customers.

CHERYL COOK: Yeah, well, this is -- I'll just share a success story with you -- and I know there was a video run at the beginning of this segment -- on really where we're bringing to life kind of I think the best expression of where we're vertically focused and we have resources and expertise that are really trying to be as intimately aware and versed in our customers' verticals, as well as just the technical capabilities and expertise that we have.

And this example is really TGen, who does just some phenomenal work in research around pediatric cancer. And as the video showed, you know, this neuroblastoma is just a life-threatening, critical illness that is really devastating to these young children.

And what we've been able to do is really just collaborate and innovate with TGen and with our customers on how we could really bring to bear some of the capabilities and expertise both on the technical advances in performance that our 12 servers have brought to bear with its improvements in speed both from the chip but also from the implementation of high performance clusters. We brought our high performance computing experts, so we have some phenomenal PhD capability around certain kind of complex solutions to bear to really drive at an implementation that's leveraging on-premise high performance computing, as well as cloud capabilities from a Dell cloud.

And what we've been able to really deliver is when our high performance computing experts, who happen to be PhDs and microbiologists, as well as HPC experts, teaming with the researchers and scientists here, we've been able to take what once was a 12 to 14 day process on diagnosing the appropriate treatment for these poor children who are suffering from this cancer down to about a five-day process, and we've achieved that through a combination of the technical advances in performance, as I said, really optimized tuning of the application environment, and teaming with partners that really are bringing new search capabilities to bear.

So, we've taken that to about a five-day process where there's a day of prep for the test for the material, there's under a day now in sequencing the genome, and we're really probably on the forefront of what's the first implementation of personalized genome trial right now, so under a day in doing the sequencing of the genome. There's a day involved of kind of pulling it together, and then they convene the tumor board. And because it's now shared and collaborative in a cloud you can actually get access of 12 to 15 different doctors, different physicians, all bringing their best capabilities and brainpower to bear, to arrive at what's the best prescribed treatment for these children.

So, just a phenomenal example of just marrying expertise of vertical capabilities, both high performance computing expertise and certainly the technology, to be able to deliver revolutionary capabilities and offer just genuine capabilities.

So, these poor children, every minute matters in their diagnoses. So, to be able to carve out that kind of time to treatment is really, really meaningful.

So, you know, this is a health care example in life sciences on where we've really teamed both with our experts that understand that vertical, but we also are really seeing our high performance computing business and presence just really grow.

We were just recognized, we just clipped up to number two in the market just behind IBM as measured by number of nodes deployed in HPC, and we're doing phenomenal work like right here in Austin at University of Texas Advanced Computing Research Center, TACT is right here, also with the federal government around National Center for Atmospheric Research at UC Boulder, certainly this one. Rolls Royce is a manufacturing example. And then we're also involved in collaborating with oil and gas.

So, we're seeing a lot of opportunities that really are lending itself to the high performance capabilities of not just the technology and the server but also our researchers to help work it.

STEVE FELICE: Yeah, and this also ends up being a great story inside the company, because our employees really rally around taking the solutions and applying them to such really important social issues. So, this health care growth for us has really been a positive morale booster for the entire company.

So, hopefully you got a sense for a few things. One is we're very comfortable with the new go-to-market organization. We think it's the right one to match with the line of business. We think we've diagnosed the issues and are putting in place the fixes to get more efficient in managing through the pipeline and getting it closed. And you've heard about three major areas of growth that we're very excited about between emerging markets, mid-market expansion, and enterprise solutions.

So, with that, I'll invite Rob up and we'll go to questions.

Q&A SESSION

Steve Felice, Kim Hibler, Cheryl Cook, and Rob Williams

ROB WILLIAMS: Great, thanks, guys. That was really helpful. All right, let's go ahead and get started. Brian?

QUESTION: Steve, just talk about how the account executives and specialists are compensated, and whether you're planning any changes there in light of the sales execution issues, and how does the timing of fixing this affect the timing of enterprise-focused acquisitions for the balance of the year.

STEVE FELICE: Yeah, well, our people are generally compensated on a combination of revenue and margin, and then special incentives for strategic products. The only thing I would say about future changes is we always look to simplify. I think we just learn over time that the more complex you make it, the less benefit you get out of it. So, nothing substantial but we'll just keep looking to make it as simple for our people to understand as possible.

ROB WILLIAMS: Next question. Over here.

ROBERT CIHRA: Thanks. Rob Cihra of Evercore Partners.

Two questions I guess. One, you showed the slide on emerging markets growth, and obviously you're targeting emerging markets like everyone, which is smart obviously. But with emerging markets comes stronger emerging markets competitors who seem to be willing to use price to a greater degree, you know, growing faster than you but maybe targeting half your margins. So, do you feel like you can continue to focus on profit and share versus share?

And then separately -- or I have one follow-up.

STEVE FELICE: Well, you know, the advantage I think we have in emerging markets is the broadness of our portfolio. So, if this were just a PC discussion then, yeah, we would probably face similar dynamics, but we can go way beyond that. Brazil is a great example where we have this number one position in servers. India is another terrific example where we invested in services and our brand really became known as a top tier brand, and customers even in emerging countries are willing to pay a premium for a top tier brand.

So, there are ways to differentiate yourself and we've been pretty disciplined in saying we're not going to get caught up into a unit share battle, that this is more about revenue growth and profit growth, and we've seen that over the years in the emerging countries. We've had very good profitable growth, for example, over the years in China and throughout Asia and in Latin America, and now even in Eastern Europe as we're growing there we're seeing profitable growth.

ROB WILLIAMS: You had a follow-up, Rob?

ROBERT CIHRA: Yeah, if that's all right. Just separate to that, just a big theme on the enterprise side is converged systems, and I'm curious I guess if you look at what Dell is doing now from a positive standpoint in converged systems going back a couple of years ago when the topic came up with Cisco launching UCS and that sort of thing. Your view back then was sort of more skeptical.

So, I guess I'm just curious, you know, what you're doing now that's positive versus what you thought was more of a proprietary throwback a couple of years ago. And I guess it's kind of is it really converged or is it bundled or is it both? Thanks.

CHERYL COOK: Well, when you talk about Cisco and what they've done, you know, you have to compliment them on really being focused around a UCS mission, which is selling a proposition really around management. So, they're talking about how to manage that interface.

When you really look at what we demonstrated in Boston with a single enclosure to be able to simplify both the management and serviceability and how dense we've been able to bring that implementation, I think it's going to have broad applicability for multiple workloads on how to really go drive that virtualized expression in the data center.

So, I think the trend is certainly continuing. Customers are looking for ways to simplify the operation, as well as management of it, and we continue to be committed to an open platform and an open set of APIs and open standard software to be able to go drive that, and I think we're going to continue to be able to capitalize on that.

STEVE FELICE: This is why the management software layer is so important in this discussion, and why John's role in the company is important, because it's a great conversation to have with a customer that's using UCS. And I remember just having one not too long ago, just a few weeks ago, where they're talking about considering it and then we start throwing out, well, here's the alternative, you know, in an open system. So, you could have our infrastructure perform the same capability, but now we're talking about one-sixth the footprint, one-fourth the power consumption, and one-fifth the price. Well, if you're talking to the right leaders in the company that perks them up. In this case they're coming to visit now, and they've put their other decision on hold.

So, you know, as we build these software management layers on top of these converged hardware infrastructures so that the manageability is simpler, it's going to be a very compelling alternative.

ROB WILLIAMS: Thanks, Rob. Right back here. Oh, sorry. Questions?

QUESTION: Thanks very much. I wanted to ask about Romley, what you're hearing from customers around Romley. Do you think it drives upgrades in existing systems and infrastructure? And if so, to what extent is that pulling along storage and networking as a bundle versus piecemeal upgrade activity? What are customers telling you?

STEVE FELICE: Well, why don't we go both -- why don't you talk about it in general and then you talk about it from the perspective of the SMB?

CHERYL COOK: I would say it would be application workload dependent, right? So, if you're constrained and you need the upgrade for performance reasons or you're in the midst of a refresh cycle already that economically from a timing perspective that made sense. You know, we really drive it more to what's the outcome and what's the application environment.

Certainly if you're looking at the whole experience and performance levels, that may certainly include storage opportunity. Much of what we see customers driving for right now is really simplification.

You know, I think the good work we've all done on driving virtualization around the server and the compute platform has just created all this level of complexity around the shared pools of storage and now networking constraint. So, it's really creating this need which is more around simplification and how to operate it more cost-effectively than really just a speed bump, if you will, in performance around the platform.

KIM HIBLER: I would say the same for small and medium business. As Cheryl said, their major focus is how they can simplify things, and speed is really important to them.

ROB WILLIAMS: Yes?

QUESTION: I just want to go back to the question on the comp structure. If they're composed on revenues and margins, how do you get the sales force to -- or how does the salesperson decide what they're going to sell? So, to the point that you made about Wyse and the acquisition, everybody is going to go and try and sell that. So, it's a brand new opportunity, it's a revenue opportunity, it's a margin opportunity, and that can ramp up, they can hit their quotas, but does that come at the expense then of the other parts of the businesses because they're focused on the new acquisitions? Can you just talk a little bit about how salespeople are really pushed to sort of sell different things and how they decide that? Thanks.

STEVE FELICE: Sure. We have a number of methods aimed at that. For example, when we acquire a company we put in special incentives for at least the first year on that product because it is usually a smaller revenue stream and you want to get the attention on it. So, we always have a special incentive on a new acquisition.

We also provide our salespeople with a recommended mix as part of their quota, so what we're expecting them to sell, and we have great tools now in place with using Salesforce.com, for example, where we measure the pipeline build and the pipeline health all the way down to the individual, and we have management systems in place with their frontline managers to ensure that the mix is occurring.

So, it's a combination. It's not all about the money. I think sometimes you get over-indexed on everything is solved by the comp plan. A lot of it has to do with your management systems that you have and the guidance and targeting that you put out. So, we measure this on a regular basis, and we hold the teams accountable to generate a certain mix of business.

CHERYL COOK: The other thing I would offer there, too, is really just training. So, as we build out more robust capabilities around our strategic focus areas, Wyse is a great example, is a phenomenal opportunity to drive an ROI on the client side but creates opportunities for the enterprise infrastructure. So, the method with which we can go to the sales rep and say you're able to achieve your margin objectives because this is the right end-to-end solution but we do the training and positioning on why the tethered better together really drives that, it's pretty easy for us to correlate. So, we're constantly working on training and messaging so that they can appreciate the affinity or opportunity sale around the broadening of the portfolio.

KIM HIBLER: I think also, too, when you look at the smallest customer that we engage with from a small and medium business perspective it's really great to be able to offer them solutions. So, in a lot of cases the salespeople are really excited about the new capabilities that they have. So, it's a way to generate a conversation and get it started.

And particularly you heard earlier that when you look at how we compensate it's neutral to the channel. And so in a lot of the cases with some of our acquisitions it's been a lot of channel business at the same time, and it just creates another opportunity for us to have a conversation with the customer and engage with them.

ROB WILLIAMS: Thanks, Kim. Questions? Okay, sure.

QUESTION: This is a question for Steve and maybe Kim as well.

So, you're getting quite a bit of revenue and margin benefit from acquisitions you're making, the mix shift to enterprise solutions and services. Yet the last two quarters we've seen pretty decent hit to operating income. I think last quarter in particular there was a 27 percent drop year over year on only a 4 percent revenue decrease. So, it doesn't feel like sales execution per se is the biggest issue, but maybe you can talk about what's driving the decrease. If it's more outside of sales execution, obviously there's things to do in sales execution, but can you help me understand it, because it doesn't feel to me like it's sales execution. And then maybe Kim can talk about it as well, because I think in your segment, Kim, EBITDA was down 74 million year over year. So, just what you're seeing and what's happening there.

STEVE FELICE: Well, yeah, I don't really think it's sales execution either. (Laughter.)

KIM HIBLER: Me neither.

STEVE FELICE: No, you know, I think at Dell we have a history of trying to focus on things we can specifically control, and put that at the forefront. So, for one thing there's no surprise that there are economic headwinds and there is too much supply chasing too few demands. So, in the very short term there are competitive pressures out there, and we see that. And we see it more in the transactional side of the business.

So, the enterprise business remains healthy in both its profitability and its growth, so that's we talk favorably about that, because it has. But, you know, the consumer business, for example, had a pretty substantial decline in profitability, and this is where we saw the greatest level of pressure from what we think is still too much inventory sitting in the channel, combined with an economic slowdown that we saw across the world.

So, I think we still feel good about the areas we're strategically focused on are growing and we're making progress there, but there are some headwinds that we're doing that in.

ROB WILLIAMS: Yeah, and I would say that if you think about it at a broader level, the way that we're thinking about the business is consistent and sustained performance. We had a fantastic year last year with operating income performance, and what we want to do is continue to improve that. You're not going to have quarter on quarter and year over year increase in operating income in every instance, especially against what were some pretty outstanding improvements last year. So, we're at a point here where we can build a base and continue to improve from here.

STEVE FELICE: Yeah, we shouldn't get too fixated on one quarter. And the SMB business I think is a great example where we're talking about some fluctuations in profitability but it's around the range of 10 to 12 percent opinc. This is a fantastic business.

ROB WILLIAMS: Right.

STEVE FELICE: And it may vary a little bit but it's still an extremely healthy business for us and it's growing.

ROB WILLIAMS: Thanks.

Well, good, let's go ahead and wrap up. I'd like to wrap things up where we started this morning and really talk about the strategy and leave you with three key thoughts that I think are very, very important.

First and foremost, this entire management team is absolutely committed to the strategy of fundamentally changing this business and providing value to customers in a very differentiated way, and I can assure you that we're all fully invested and we intend to succeed in what we've set out to do over the course of the past three years.

Second, I can tell you that the solutions groups that are represented on this slide, as well as the sales and marketing organization that is represented on the stage right here, and all the people that they work with across the organization are delivering end-to-end solutions with a really differentiated point of view, a real customer point of view that's built around a scalable design point, and there is a steadfast and resolute focus on making sure that we execute and succeed and do the right things in the business.

And finally, I would say that financially we absolutely have a focus on running our core business well, delivering appropriate levels of cash flow and growth, and creating the fuel that funds the future growth opportunities for this industry and for this company. And obviously in the enterprise solutions and services business, in the software businesses, these are businesses that we can grow quickly, they provide accretive gross margins, they provide accretive operating margins, and we absolutely are committed to delivering an appropriate distribution of capital to shareholders in a balanced way.

So, I appreciate the time that you've all taken over the course of the last day or so here in Austin. As I mentioned at the beginning of the day, we're going to do something a little bit different with the lunch today than what we did last year. We'll have lunch outside. It will be relatively simple things that you can eat on one plate. Next door all of our executives that were here today, as well as the majority of the executives that were present at the panel discussions last night, will be available in an informal format so you can move around and mingle and bring up additional thoughts and questions that you have with our executives.

So, again thank you very much for your attendance today and we look forward to continue to update you on our progress over the course of the coming quarters and years.

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