FINAL TRANSCRIPT

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PRESENTATION

Katy Huberty - *Morgan Stanley - Analyst*

Good morning. Welcome to Day three of Morgan Stanley's TMC conference. I'm pleased to welcome Dell to the stage this morning. With me are Brad Anderson, SVP of Enterprise Products Group; and Rob Williams, Director of Investor Relations. We are going to keep to the same format. I'll kick it off with a list of questions, and we'll make sure we leave some time for your questions as well at the end.

So thank you, gentlemen, for joining us today.

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

Well, thank you very much.

Katy Huberty - *Morgan Stanley - Analyst*

Just to set the stage, Brad, can you start out by talking about the trends you've seen in service and storage over the last couple of quarters?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

Yes. So it feels like a very different year than where we were at this time last year. I think service, in particular, kind of bottomed out in 2Q this past year. At the time I'm not sure we were aware of it, but then 3Q was significantly better than 2Q, and then 4Q, the quarter we just completed, was a very strong quarter for us, particularly year-over-year on certain results. Our end of quarter goes to the end of January, and so initially -- which was good because we were able to see that it was year-end flush or if there was demand throughout, into early January. And we saw fairly good server demand through December, beyond the year-end boundary, into January.

And we see -- we are having good conversations. I think last year many companies really, about this time of year, if they had a budget, they didn't have a budget. And we are seeing companies seem to be going into the year with a budget, with a plan and being planned full. And so far we are pretty optimistic that we are on a steady up path where we're going to start seeing normal sequentials.

Katy Huberty - *Morgan Stanley - Analyst*

And even with two strong quarters of server results under your belt, you had the confidence to guide to a little better than normal seasonality in that business. What drove that guidance?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

Well, one thing is, we had the benefit of seeing January and see that demand held up in January. And then, secondly, we have looked at our pipelines. And so we've looked at our large enterprise business, our public business, our SMB business, and spent a lot of time talking to the sales managers and leads of those various businesses and to really inspect the pipeline and to understand what are they seeing.

And based on the feedback coming back and the types of dialogues we are having with customers, that's what gave us confidence.

Katy Huberty - *Morgan Stanley - Analyst*

And beyond understanding in the first half of '09 which drove some catch-up in the second half, Intel launched its low-end Nehalem processor, and that was the driver. What are you expecting from Nehalem EX? When should we see the impact on your results?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

So Nehalem EX will be, if you will, end of March/early April. The significance of Nehalem EX is that -- well, first of all, Nehalem was the biggest jump Intel has had between generation to generation. So it was a very compelling value proposition. And the same applies to Nehalem EX, where Nehalem EX is, for the four-socket designs, will be as much as two, if not greater, performance increase over Dunnington, the predecessor architecture. And then if you even reflect on the installed bases, it's something like 15 to 18 times the performance of the most powerful single core.

So it offers a tremendous value proposition for those using four sockets for consolidation purposes. And so I think, the economy aside, Nehalem EX has that proposition where you will probably see a faster transition to EX, to four-socket, than you normally would, because of the big jump.

Now, four-socket tends to take a longer qual time, and so I don't think companies are going to eliminate doing qualification of that platform. But I think, because of the proposition, we are anticipating a faster transition than normal.

The other thing I would just also add is that Nehalem EP will be refreshed with the Westmere technology, and the Westmere technology will also offer a pretty significant performance bump generation over generation, which I think will just be positive reinforcement.

And then maybe the final thing about EDX, not just on the performance side -- on the processing performance side -- it will allow you to (inaudible) very large memory, which is hugely important for those looking for consolidation and virtualization opportunities. We saw large memory, increased memory attach rates with Nehalem. And with Nehalem EX, you will be able to, if you will, get a terabyte of memory in a four-socket design. So that makes it a really ideal platform for large databases or for a large-scale consolidation or virtualization platforms.

Katy Huberty - *Morgan Stanley - Analyst*

And that trend of more memory in the Nehalem boxes should help ASPs?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

Absolutely. We saw that last year, actually, and I think that you're going to see that continue because, as people have more processing capabilities, they are balancing that system with more memory. But with more memory you are buying more hard drives, and overall it's a richer configuration which has kept ASPs -- ASPs, in fact, have increased in some configuration designs.

Katy Huberty - *Morgan Stanley - Analyst*

Now, shifting to storage, over the last year Dell has evolved the model from being a reseller of other vendors' technology to shifting more internally to owned technology, for example, EqualLogic. But in that process we've seen some quarters of negative year-on-year growth. How quickly can that reverse, given the strength in EqualLogic and the easier compares we're coming up on?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

Yes; let me break that in a couple of components. So if you go back, if you will, three or four years ago, Dell was principally reselling storage. And then, two years ago, we made the purchase of EqualLogic -- actually, about two years ago this time to really -- and we invested ahead of the curve. And the reason I say that is because it -- not only us driving our own storage platform, it also signals an important kind of change in Dell's thinking where iSCSI was -- and it's still early in the curve, but people weren't thinking iSCSI, and Dell has probably been known as a fast follower. And that was an example of us changing our enterprise attitude, saying we are going to go lead in this market, feeling that the iSCSI market has a huge upside potential.

And we are going to take a leadership position rather than necessarily be a fast follower of somebody making that market and thus trying to be more efficient in that market. That has been a good decision for us because the iSCSI market, even last year, grew at 25% year-over-year growth, where many of the storage markets declined. It obviously has a very different margin profile than being a reseller. And so last year was really about us kind of reshaping our business on a couple dimensions. One was the customers selling the right solution for the right problem. Many customers were going to a multi-tier architecture. Fiber is hugely important. EMC is a fantastic partner, but it's not necessarily the right technology for all tiers. And now, Dell EqualLogic, we have a product that's very appropriate for large part of the business.

So we focused on putting the right product to the right tier for the customer and then being much more focused on maximizing profitability and value add rather than just moving tonnage. And so, as a result of that, you saw some of the revenue come down as we became more focused on more profitable business and having a much more tiered strategy with our customers as they manage their storage investments going forward.

Katy Huberty - *Morgan Stanley - Analyst*

Now, shifting to gross margins, you run a business within Dell that carries higher than corporate average gross margins. Can you just set the stage for everyone, just talk on a general basis the relative gross margins to your product versus the corporate average of 17% to 18% over the last quarter?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

Well, let me talk in generalities because we don't necessarily disclose them all on a product line by product line basis. But the corporate average for the quarter we just announced was 17.4%. So servers are above that, in the 20s. And storage is even above that. And then, obviously, our Perot business is another created business.

And so, because of that, enterprise is an increasingly important part of the Dell portfolio because it's accretive not only on the revenue growth line, but it's expanding our server footprint and our storage footprint as well as services, really adds to the Dell corporate average at 17%. The other thing is that there's a lot of really exciting enterprise plays. And as you are seeing investments where 20% plus is usually accretive to Dell, which is really a challenge for some of these more legacy enterprise players because 20% may be more at the low end of their range.

And so it allows us to be very aggressive at attacking, like the iSCSI example, where we can kind of attack historical legacy ways of doing things with inflection technologies which are usually accretive to Dell, but it does give some pause to some of the prevailing players in the market.

Katy Huberty - *Morgan Stanley - Analyst*

And as you just think about the simple math, today servers and storage and a little bit of networking make up about 15% to 16% of revenues. If that were to shift to 20%, you could see anywhere from half to a full point of gross margin benefit to the Company. And so what are the catalysts and the product categories you are looking at that could potentially move the revenue mix in that direction?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

That's a great question. There are a couple areas. The first one -- let me just reemphasize us bringing Perot in. Perot obviously brings in a lot of capabilities, and then again, they would absolutely be accretive in this model as well on the services alone. But with the presence of Perot, we are finding that we are, on both sides, are now gaining into opportunities that we would not have gotten in.

Let me give you an example of that is that we are -- at Dell we measure everything. And so we are being very aggressive at identifying the synergies of the Dell Pro integration. We have already moved all our services capabilities into Perot. Perot is now Dell Global Services, in that there are cost synergies, but there are revenue synergies. And we are already tracking just under 200 opportunities that we on both sides feel like we would not be participating in individually if it had not been for that combination. And so those are opportunities that are not just for services but also for Dell infrastructure product.

And so we think that's going to be a hugely important catalyst because it's just going to get us in many more of the fights going forward. And so that's a big catalyst.

The other area, the other couple areas you are going to see us invest in and that's part of the stated strategy, is you are going to see us -- we kind of have kind of three big corporate priorities. One is solidify the core and (inaudible) around getting the cost out of our client business. And as we do that, you're going to see us reinvest that into our enterprise business. And the areas we are focusing on there is expansion of Storage Technologies. It is a small acquisition that we announced a couple weeks ago the purchase of Exanet, that does cluster file systems that would be able to provide expanded capabilities to our Dell storage assets. We are going to continue to invest, probably in a big way, one of the biggest ways, in our downstream go to market initiative around our enterprise products. We are transforming our field to be much more solution oriented, to map with our enterprise portfolio and our Perot services capabilities.

And so last year was a difficult year to higher sales folks, given the outlook. This year we are making investments across our large enterprise and our public business in particular, as well as SMB, to expand our sales capabilities around those particular products.

And then, finally, you should expect to see us invest selectively in enterprise software assets. We are very much committed to an open approach, but we think there are so many interesting inflections going on that there are opportunities to bring value add in managing in a clouded environment, in a highly virtualized environment and helping customers provide capabilities for them to have more flexibility in their operating models for their data centers.

Rob Williams - *Dell, Inc. - Director, IR*

So if you roll it all together and you think about on the server, 11G servers, Nehalem, Nehalem EX coming broad portfolio from blades through cloud and data center applications, general-purpose servers, then you get a storage and you've got a tiered storage capability that rolls out through our partnership with EMC and midrange Fibre Channel SAN. And then you look at what Perot has been able to bring us.

We have a much broader portfolio today and a deeper capability. And frankly, our customers are -- they have always wanted us to be a part of their data center solutions opportunity because they see us as, frankly, a disruptive force in terms of delivering better cost and value to them as customers. And we are just seeing a lot more opportunities where we've got a seat at the table, more broadly and more often, as a result of everything that Brad's team has been doing and in conjunction with the expansion of our services capabilities with the acquisition of Perot last year. So it's a much broader opportunity.

And then, if you look at the commercial side of our business, those businesses by and large are running at anywhere between 7% and 9% operating margins on a non-GAAP basis. And you can see that in our reporting structure. And so, as that business continues to mix up to more data center solutions, you're going to see that, hopefully, drive us to the goal, the stated goal, of having our operating margins on a GAAP basis above 7% and on a non-GAAP basis, obviously, closer to probably 7.5%. So that's really the longer-term goal for the business.

Katy Huberty - *Morgan Stanley - Analyst*

And just to drill down on a couple of those drivers, Brad, you talked about Perot as expanding the go to market. You talked about hiring salespeople in public and large enterprise, in particular. What about the channels? Is Dell considering more channel relationships, or do you have enough on your plate with the other initiatives?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

No; the channel is the important part. I think direct is our heritage. Michael came out about maybe a year and a half ago, two years ago -- we are not religious about it. We don't want to not take full advantage of it because we think there's a number of tremendous value -- benefits from the channel. But we have grown our channel business. I don't know if we stated the percent today, but on the commercial side --

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Rob Williams - *Dell, Inc. - Director, IR*

Yes, we have.

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

On the commercial side, it's close to 25%, up from about 15% only a few years ago. And so that allows us to get coverage in geographies where we have less of a direct footprint, but it also allows us to serve a broader set of customers the way they want to be served.

Rob Williams - *Dell, Inc. - Director, IR*

And the addition of, for example, EqualLogic, which was a business that was sold primarily through the channel, the recent announced plans to acquire Kace, which is a medium business systems management tool on a client. There's a lot of things that are going on that make us, frankly, a pretty desirable partner for the channel. These are products that can allow the channel to have a differentiated story and make a reasonable margin. And they see us as a much more relevant partner now, more so than in the past -- keeping in mind, we always had a channel business. We really never talked about it so much because of the direct moniker, but it was always 12% to 15% of our revenues, and it has been for the last 10-15 years. So it has moved up from there, and it's something that we want to continue to do. And we've evolved those relationships, and I think it continues to evolve (inaudible) talk to the business leaders that are working on those channel relationships. They are actually pretty bullish on the opportunity.

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

And just really one comment here that Rob made is that EqualLogic was almost principally sold through the channel. And because it's a highly differentiated product it became an anchor product for the channel. And so it's a product that the channel can be very successful with. And it was the catalyst for them taking a broader part of the Dell portfolio. And so it has opened the door to put more servers and other products into those various channels. So that has been very successful.

Rob Williams - *Dell, Inc. - Director, IR*

One last point I would make on that is, when we go to the channel to talk about a relationship, it almost always starts with the enterprise discussion. If all they want to do is talk about client, then we are likely not going to be very interested in talking to them about it.

Katy Huberty - *Morgan Stanley - Analyst*

Just given the margin structure?

Rob Williams - *Dell, Inc. - Director, IR*

Yes, correct.

Katy Huberty - *Morgan Stanley - Analyst*

And then the other follow-up is expanding the portfolio either organically, inorganically -- we talk about EqualLogic, about Kace, about Exanet. And those are all, on a relative basis, small acquisitions. How do you move the revenue needle with those type of acquisitions?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

Well, on the enterprise side we've done three, and they have been of three different scales. There's EqualLogic, might be a midsize; and Perot was a very large one and Exanet is a small one. So I think you're going to continue to see variability. I think those just characterize the first three. I think we've been very successful with EqualLogic; we've been very pleased. The Perot, obviously, is very early, but it feels like a very natural synergy. The integration is going quite well on the Perot piece, and we are working very cooperatively. And I mentioned we are now seeing -- it's opening up parts of the market that we didn't have access to in a very fundamental way.

Exanet is an extremely small company, mostly for intellectual property. And so I think, going forward, each of those -- you are seeing us build on, increasingly, a stronger foundation of enterprise capabilities. And you're going to see us continue to do that. And I think, as Brian Gladden has articulated in the past, kind of that smaller to mid size is more in our sweet spot.

Rob Williams - *Dell, Inc. - Director, IR*

If you think about back in December, we had an integration call and discussed the synergies that we see with Perot. We've identified $600 million of revenue synergies. We are actually very confident in those revenue synergies, and even another 2.5 months into it or three months into it, we're feeling even more confident about the opportunities that Perot brings. And we talked about why that's the case a moment ago. EqualLogic definitely a home run, and it's a business that's grown from a $125 million run rate when we acquired it to just south of a $600 million run rate in the fourth quarter and generating really healthy operating margins.

And so there will be more of those. And they will begin to add up and multiply on top of what the team has done organically or what the servers and storage organically. And so, as demand comes back, which we all believe pretty strongly that it will this year, beginning in the enterprise, I think we would hope to see that business would begin to accelerate. And we'll be getting some of that mix shift both in terms of revenue but also in terms of margin contribution.

That's -- when you think about the stated strategic goal of the Company, it's to get ourselves in a position to have a bigger piece of the recurring revenue and margins streams that are out there. And we've got a great footprint via our heritage as a solutions provider and client and in enterprise. So as demand picks back up, I think we're pretty well positioned for that.

Katy Huberty - *Morgan Stanley - Analyst*

And that tends to be sticky business?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

Yes.

Katy Huberty - *Morgan Stanley - Analyst*

Brad, a question on the selling method as you go to market. A lot of Dell's competitors have become larger either through acquisitions or through partnerships. Dell has done some of its own acquisitions, maybe not so much on the partnership side like an HP, Microsoft, [an EMC], Cisco. What is your selling message to the end customer in terms of Dell's differentiation versus those larger players?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

As we talk to CIOs, and obviously we are out there talking every day, we are hearing that, given the economic environment they went through, there's -- well, let me just say it this way. We very much hear a message that they want open, affordable and capable solutions, and that many of the offerings from the others tends to be much more closed and proprietary, and maybe increasingly becoming more closed and proprietary.

And coming through the economic environment, we are hearing much more loudly that people want much more flexibility, more modularity in the designs. Their environments are, by definition, heterogeneous. The notion that they have to consolidate all on a single kind of vertically integrated stack, if you will -- there is a small group that likes that, but we are hearing from the majority that's not where they want to go.

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There's a lot of inflections going on in the industry, and some of these inflections we are at a very kind of nascent part. And for a company to go so vertically integrated and bet so hard on one company managing through that whole series of inflections -- we are not hearing that resonating. And so the conversations we are having is around open and modular, less proprietary and highly -- much more flexible and not just focused on the infrastructure costs but more on the total operating costs. And so they want that choice and flexibility. That has been a hallmark of Dell on their more platform-oriented business. And we are hearing the same things on the solutions side.

So you're going to see us, our differentiated strategy is to drive enterprise solutions that are much more open and flexible. And there will be partner components in there. We partner very well with Microsoft, with VMware. And customers are -- they want choice that many of those layers that increasingly are not going to be available and some of the competitive offerings.

Rob Williams - *Dell, Inc. - Director, IR*

I think we want to have an opinion. You know, when it comes to a solution we want to say -- if a customer comes to us and says, here's my problem, we want to have an opinion and say, here's the solution that we think works for you, more from an integrated solutions standpoint.

But at the same time, to Brad's point, we are not going to say it's all or nothing in terms of what that solution is. If you've got a particular infrastructure and installed base that we need to work with, we are going to figure out how to work with that. It's not like throw everything out and start over with a fully integrated stack.

So I think that's going to be -- you think about the heritage of the Company and being more of an open platform and more of a modular platform, I think that's a big differentiator for us as we continue to expand up into the data center.

Katy Huberty - *Morgan Stanley - Analyst*

And one customer set that is particularly looking for open and more cost-effective solutions are the cloud service providers.

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

Yes.

Katy Huberty - *Morgan Stanley - Analyst*

You've had significant growth in that segment, I think it was 250% year on year last quarter. Is that sustainable, A? And then, B, what's the margin profile on those type of deals?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

I think the business groups you're talking about is our data center custom solutions organization. And we had a fantastic quarter with that group. Let me just give you just a little bit of history is that we formed that group about two years ago and really didn't have a presence in that space. And we were selling standard power edge products into a space that, at that point in time, there's customers completely re-architecting their environment for a much different business model and different operating model. And they were, at the time, using closer to lightbox type products.

And we entered that market thinking we needed to build a much less expensive for more cost-effective entry-level platform. What we found was -- and then where we are at today and why we had such a great quarter with respect to that is they were looking for much more holistic data center solutions, looking at providing the maximum performance per square foot, per watt, per cooling capacity and looking at deep architectural help because they were committed to completely re-architecting their applications to get at, if you will, the greater source of their expense, the operating expense.

I think a lot of companies talk about that, and I think this is where cloud is focused for particularly the hyper scale is that, in a given environment, about 80% of the expense is running the business and 20% is infrastructure. The early hyper scale cloud providers are focused more so on the 80% than the 20%. And so we went in there focused on the 20%, and our success has come with being much more of a partner to those companies focused on the 80%, helping them get complete service and support, operating deployment, other costs (inaudible) thing that has been very difficult.

And so that has given us a great foundation. And so that's for the hyper scale. That has given us a great foundational piece so, now that as other companies who don't plan to do the hyper scales are looking at much more dynamic infrastructure to implement private clouds in their organizations, we can bring that expertise and learnings into that space.

And so I think the way we will sustain growth is that we anticipate continued growth in the hyper scale, less so that we are going to create more and more hyper scale customers. It's taking the learnings of that and driving that into a rich product set and services and solutions on top to those implementing public and private clouds.

Katy Huberty - *Morgan Stanley - Analyst*

I'll ask one more question, then I'll see if there are any in the audience. A number of enterprise companies in the December-January quarter just talked about operating hand to mouth on components. There's a lot of tightness. You had to deal with memory costs coming up.

What does the environment look like today, now that we are in a more seasonally slower period?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

There has been some improvement. There has been some improvement on the hard drive side. For the enterprise, probably the two more problematic areas was drives and memory. And so, on the drive side, that has improved. And I think you're even seeing some profitability among the drive vendors, so there is evidence that they are bringing more capacity online.

On the memory side, particularly DDR3, that is still pretty tight. And we hope it gets better, but -- it's marginally improved, but it's still tight in Q1 and for the foreseeable future. And I think a lot of that is we're all trying to figure out how fast will the demand come back in.

Katy Huberty - *Morgan Stanley - Analyst*

Let me see if there are any questions in the audience. Questions? Okay, we'll keep going -- one right back here.

QUESTIONS AND ANSWERS

Unidentified Audience Member

You guys talked about your confidence in your revenue synergies from Perot. Can you talk about the cost synergies? I think you targeted $300 million.

Rob Williams - *Dell, Inc. - Director, IR*

Sure. We did; we targeted $300 million. The majority of those synergies, when we acquired Perot we talked about the fact that this was really a platform acquisition for us. And so we reverse integrated our entire services platform onto Perot. We've also done the same with our IT platform. And through the combination of some logical savings that you would expect to have when two publicly traded companies come together, so shared services, public company costs, those types of things -- those will come out pretty quickly this year. And then, over the course of the latter part of this year and into the next couple of years, you are going to see, through the consolidation of some of the operations around the services as well as the IT operations, you will see us driving out that additional savings -- mostly, frankly, on the Dell side, through the consolidation of IT.

The other thing that's important to remember is at Dell the majority of -- we did a lot of outsourcing or we went to other folks to do a lot of our application development work and things like that. We are doing a big Oracle implementation where we had an outside partner that's helping us with that Oracle implementation. These are all things that Perot does and that are a core competency of Perot, so apps development and those types of things. And so you will see some of those costs, consulting costs, come down as well.

And so we feel, again, very confident about the cost synergies, even more confident about the revenue synergies.

Katy Huberty - *Morgan Stanley - Analyst*

I would be remiss if I didn't ask at least one question about the PC business; so, two parts. One is commercial desktop refresh -- you've talked about having more discussions than you were three or six months ago. When should we expect and when do you expect to see real revenue impact in large enterprises from those refreshes? And then second part of the question is, any reads post-Chinese new year, around demand momentum exiting that holiday season?

Rob Williams - *Dell, Inc. - Director, IR*

Sure. In terms of the corporate refresh, you have to break it down by the different measured global segments that we have. And clearly in Q4 there was some pretty strong momentum in the business. And so I think you are seeing that refresh begin to kick in, particularly in small business, on a global basis. It's more in the developed countries, less so in the emerging countries, where there are still a bit more cost sensitive. So it's beginning to start there.

When you move into the larger commercial accounts, some medium business up through what we would call global 500, so the largest global accounts, they are clearly -- they have moved from talking about implementations to actually planning and moving forward with implementations. So there's no -- through our discussions with our sales teams, it's pretty clear that people are moving in that direction.

It's still going to be a bit more -- we think it's gradual. We think it builds through the year and it's probably a bit more of a back half of the year phenomenon and into next year. There will be some pockets where it will be a little bit slower -- state and local government, for example, where they've got some budget challenges. But other areas like intelligence, education, places like that, where it's going to move pretty quickly.

When we talk to CIOs, they are basically -- and the CFOs -- they are basically saying we feel pretty confident that our profitability is going to improve this year. We're not exactly certain of the timing and pace of that improvement, but we feel like we need to just go ahead and make the investments that we didn't make last year. And that's an enterprise investment. But it's also a client investment. A lot of people just completely shut down the client, or they had excess client in their infrastructure as a result of workforce reductions. And so they've worked through that. And there's a lot of aged product out there in the database. They don't like to touch it and try and refresh it; they are going to do the whole thing. They are going to do the OS, they are going to do the hardware. They made do Windows -- or Office 2010 as well, depending on how quickly they've deployed 2007.

So we feel pretty confident that it's going to be happening over the course of this year and building throughout the year. I would -- you've heard this, probably, from a lot of other companies. The pipeline looks better. There's still some [beta] around the visibility.

Katy Huberty - *Morgan Stanley - Analyst*

Yes, and timing, yes.

Rob Williams - *Dell, Inc. - Director, IR*

There's still some variability around the timing and the pace. But everybody feels that it's better.

Katy Huberty - *Morgan Stanley - Analyst*

And just to jump in there, and connect it to Brad's business, is it a fair characterization to say that the pace and the timing of corporate spending coming back is servers and then storage and then PCs? How would you think about that?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

That's what the industry analysts have predicted and that's what we've seen so far in our customer interactions, that there are probably more server infrastructure discussions going on than even storage. And so I think that's probably an accurate phasing.

Katy Huberty - *Morgan Stanley - Analyst*

And then just Chinese new year? Do you have any read post-Chinese new year, or is it too early?

Rob Williams - *Dell, Inc. - Director, IR*

Probably too early, probably too early.

Katy Huberty - *Morgan Stanley - Analyst*

Is there one last question from the audience? If not, I'll steal the last one. Desktop virtualization -- positive or negative for Dell as you think about the total opportunity and companies looking at that technology?

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

I think it's very positive. I think it's going to be slow. I think companies are struggling to do the ROI. But I think there are some really exciting opportunities around security, around very targeted opportunities like classroom of the future and others. I think long-term, for Dell, because we have such a large client footprint, this is a fantastic opportunity because desktop virtualization is as much about the back end, the server and storage to support a flexible device in the desktop, as it is the desktop device. So I think this is a long-term positive for Dell.

Rob Williams - *Dell, Inc. - Director, IR*

I would wholeheartedly agree. I think there's a perception out there that this is potentially negative for Dell, given our heritage as a client vendor. And that's just -- it's -- when we have conversations with our customers, it's just not the case. I think, to Brad's point, there's a tremendous opportunity out there. It's about the back end as well. It's not necessarily about saving money as much as it is about data protection, disaster recovery, security issues, power consumption. And so the ROIs can sometimes be a wash. But when it is being implemented, it's for reasons that are more (multiple speakers) more strategic.

And the last point I would make there is that, with Dell Services now, there's a real opportunity there. We are already doing some things with connected classroom and we are going to be able to profit-ize those solutions over time. And so you will see us product-ize those solutions and be able to offer those solutions if someone is looking for that kind of EDI solution. We'll be able to come in and say yes; as a matter of fact, we can do that. And here's how we do it and here's how we have done it and here's the success that we've seen.

Katy Huberty - *Morgan Stanley - Analyst*

Great. Thank you so much for your time today.

Brad Anderson - *Dell, Inc. - SVP, Enterprise Product Group*

Thank you, Katy.
