CSLA Investors Forum

Dave Johnson, Dell Senior Vice President, Corporate Strategy

Hong Kong

September 12, 2012

AVI SILVER, CLSA: Good afternoon, everyone. Thanks for being with us today. My name is Avi Silver. I cover technology hardware, including Dell, for CLSA.

I'm pleased to have Dave Johnson, the Senior Vice President of Corporate Strategy; and Rob Williams head of Investors Relations from Dell with us today. And thanks for making the long trip from Austin, Texas.

I think most people are quite familiar with Dell as a global company, but perhaps what's under appreciated is the transformation to solutions provider with software, storage, networking, and other solutions from just a pure PC player. To that end, I view Dave as the key architect of this transition, or a key architect of this transition, having joined Dell after a 27-year career as an executive at IBM.

So, I'm going to first read Dell's Safe Harbor, and then we'll turn it over to Dave for his presentation, and then some Q&A.

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With that, I will turn it over to Dave Johnson.

DAVE JOHNSON, Dell: I would like to start with commenting on there's a couple of firsts for me. It's the first time where I took a 16-hour flight, got off and the weather was identical to Austin, Texas. So, I'm perfectly at home in the warm weather that we're having here.

Of course another first for me is I've never presented after Mike Tyson before. I'm not sure that I ever will again, but that's certainly a unique thing.

But, in all honesty and sincerity, we're very pleased to be here today from a Dell perspective to share some of our vision, talk a little bit about our strategy, and how we're going to help our customers realize the vision. And then also just share a little bit about our financials and our progress towards the transformation as Avi articulated.

So, that's really my agenda. I have just a few charts, and then I'll entertain questions after that. There's the Safe Harbor. We'll move off that chart. This is a very important chart, and probably the bulk of what I'd like to talk to you about. And it really is talking about what's happening in our technology industry. We're really at an incredibly unique time, really at the precipice of what I think is going to be another golden age of innovation and productivity that we as an industry can provide to our customers.

And as I go through this and talk for a while, I'll give you examples of what I'm talking about that will be these unparalleled levels of productivity. But, at the same time, it's such a big architectural shift that it's as big a challenge for our customers to capitalize on it because they have spent the last 20 or 30 years, depending on the life of the company, building in kind of a traditional and systematic way, and so they have an infrastructure that is pretty incompatible with the potential of today.

So, let me talk for a minute on the left part of this chart about the environment you find in most customers today. These are mid-size companies, or large companies, but they generally happen to be companies that have been around for some period of time. They could have been around 20 or 30 years, and they'll have even more complexity, or they could have been around even just five years, and still have significant elements of what I'm going to discuss.

For the last 20 or 30 years, we as an industry and as an IT organization have been finding ways to get higher levels of productivity and efficiency to of the hardware, because if you go back in time the hardware was a dominant cost associated with running your data center. And so we became pretty sophisticated, and today we have what I call a network-centric connected set of pooled resources, because we've got servers in one farm. We've got storage, NAS and SAN in another farm. We have a very hierarchical network that tries to connect all these.

And through this sort of architecture, we got increased level of productivity by managing all the applications through these pooled sets of resources. Customers became very sophisticated and having two or three vendors competing for each component. And, of course, then we got to the era of virtualization, which really again increased the Microsoft-centric set of hardware. But all of this has been at the expense of manageability.

And so today's data center you have an incredible amount of investment around just managing the operations. Gartner has come out with surveys that will say 75 percent of today's data center or IT cost is around just turning the lights on and managing the applications.

If you dissect the $3 trillion IT industry and see how much of that cost is around the hardware element that we've been emphasizing getting productivity out of, it's down today to 9 percent, and that trend will continue. But, the challenge is what to do with the other 91 percent, the software, the services, and the dramatic number of resources CIOs have had to add to try to manage the multi-vendor environment and manage the complexity associated with this pooled set of resources.

So, in order to get the next quantum leap in productivity it can no longer just come out of the hardware, and I'm not trying to articulate that Moore's Law is dead, or that there isn't additional productivity coming out of the hardware. Actually, far from it, there is. But, in order to make a substantial change in the overall productivity and efficiency, we've got to start to address the 91 percent. And that's why this is such a huge shift for all of our customers, because the efficiency has to come now through how do we simplify the overall operating environment.

That's really the challenge that our customers and CIOs face today. And so in a very simple way the Dell strategy is to help our customers really navigate from this legacy world of pooled resources to the promised land of the agile and efficient infrastructure that gives them not only agility, but much better simplicity and time to deployment.

So, let me talk about what is capable today and is emerging over the next couple of years. So, I'm trying to move to the right side of this chart now. What is the right architecture for the CIO to go design towards, and what are the investments he should make today that are aligned with that vision for tomorrow.

Well, the first thing I tell CIOs is you've got to go away from this pooled hardware centric approach to managing your operations, and go back as we always do to the future, meaning the past, which is let's get application-centric again. And the reason that we can get application-centric again is the inefficiency that existed 30 years ago around the hardware has been largely resolved, and you need to get application-centric to really start to address how you really gain the next level of efficiency within your operations to simplify your business.

So, the first question becomes, which applications should we put on premise versus off premise, which ones should be in some form of a public cloud, if you will have it, versus on-premise in a data center, or a private cloud. And the first way you need to look at that is, again, by your application, what's the performance, because performance of course will always be at the margin faster on premise versus through a cloud. What level of security are your comfortable with? Which again means by application you have to think about it, what data is that application going to call and therefore am I comfortable with that data being on or rather off-premise.

What level of regulation am I subject to, whether that be from a banking set of regulations, from a healthcare set of regulations, or from an ever-increasing set of privacy regulations, which will limit what I can put in the cloud versus what will be on premise.

Another one will be how transparent do I want the application, because if it's running on my premise I have all kinds of tools today that exist that allow me to inspect the performance and ensure it's running properly, less so if it's in a cloud.

So, in an application-centric world you go back and look at each workload and decide is it something that you're more comfortable having on-premise versus off-premise. That would be the criteria that our customers use, because quite frankly the cost and the ease of use will merge. The difference between those two elements in a public cloud versus a private cloud over the next few years will become rather ubiquitous and clearly not differentiated enough to be at the core of your decision-making.

What you need to do today is start to prepare for that, because whether or not you choose to go into a private cloud environment, or a public cloud environment, you have to have a certain industry standard set of capabilities. So, again, the performance capability of this type of infrastructure shown as converged infrastructure, or the cloud, will be dramatically better than what customers experience today, for all of their legacy environments. So, if they're running on some sort of proprietary set of applications on a dedicated and proprietary set of hardware, that cost differential versus the architecture and simplicity of what's on the right side of this chart is going to become so significant that the CIOs really need to start to migrate those legacy applications.

Again, this cost differential is going to continue to grow, because for the first time in my 30 years in the industry there is a new architecture coming for the memory, which will dramatically increase performance, once again, of the application, the hardware. We have multi-tenancy, which again will increase the productivity, whether you're in a private or public cloud. And lastly, there's an innovation coming called bursting, which will enable a customer to manage their data center at sort of average workload, as opposed to having capacity for peak workloads.

The combination of these three things alone will assure the continuation of Moore's Law plus. And again, this will exacerbate the difference between running applications in this converged, or cloud environment, versus in a traditional legacy environment that exists today.

So, when we talk to customers about the architecture of the future there are two big moves that they can make today. One is, consult with us on the applications, and understand what the nature of those applications is, so you can assess whether you want them in a public or private environment. Then allow us to help you migrate from that legacy world to the industry standard world. And on this chart you'll see the triangle that talks about migration, these are a series of assets that we've acquired, along with a lot of organic resources, that position Dell to be the broadest capable company to automate, from a software perspective, and from a skills point of view, the migration from those legacy environments into an industry standard environment. Those are companies like Clerity and Make that we acquired, in terms of tools to migrate.

It also includes a software company called Boomi, which enables you to have connectivity between the legacy world in the cloud world very ubiquitously so that you don't have to replumb all your infrastructure, as well as even in the most recent acquisition, which will close later this month, of Quest, one of the big suites they had is application migrations. So, whether that's application migration from a Notes environment to Microsoft Exchange, or between different versions of Microsoft applications, they have a very comprehensive suite.

So, a big piece of what we do today is help customers prepare for the ability to leverage this architecture, whether it's in the public cloud or in a private cloud environment, by getting to the industry standard architectures that are imperative and a very safe investment for all the CIOs.

Now, as we think about everything, again, by workload, and by application, and again that is the big change that's happening in the IT industry, to go away from this pooled resources back to an application focus and application-centric world. These applications are workloads. And one of the workloads is what do you do with all of your endpoint devices. All companies need to continue to push and pull information to their team members.

It doesn't matter whether this is a smart phone, or whether this is a tablet, or this is some form of a notebook or a desktop, or whatever incarnation we have of these devices that we as employees use

from a productivity point of view to enhance our performance within the job. But, you need to have, all companies need to manage that environment. They need to secure it, manage it, and connect it.

And so the architecture of the future will actually have a separate network around this workload, because no matter what you do between private and public cloud, I don't care if you put all of it in a public cloud, or all of it in a private cloud, you're going to need the separate infrastructure to manage all of your end point devices.

And the world of those end point devices has gotten much more complex, because until a few years ago CIOs could standardize on one platform, both from an OS operating system level as well as from an infrastructure or hardware perspective, in essence delegate the decision to the procurement office.

But with bring your own device to work, and all the different devices that exist today, the complexity has gone up. So the one area that a CIO didn't have a lot of complexity just got much more complex. Every time I talk to a CIO, they want to talk to me about, what do we do about this environment? How do I secure it? Because the complexity of managing multiple operating environments definitely compounds the risk from a security point of view, and a manageability point of view.

So, Dell has been building that infrastructure up so that we have, I believe, the most comprehensive set of assets that help customers in a heterogeneous environment manage, secure and connect those devices. And so when you look at our acquisitions, I'm trying to give you a framework, a whole series of the acquisitions which are detailed around the left side of that chart have given Dell the comprehensive capability, whether it's a thin client or a smart client, to manage those devices. It's also given us by far the flattest and fastest network through a combination of our PowerConnect capability and the acquired Force 10 capability.

And from a security point of view, we can hang appliances off, not only for manageability, but also UTM, unified threat management, to deal with the potential intrusions, and through SecureWorks we can monitor them and tell you if there has been an intrusion and help you rectify it. So, again, taking one set of problems off of the CIO's desk, and providing a full capability.

That security goes on even into policy management, again with identity and authorization software. We have that suite as well.

So, we can go in today, diagnose an environment, a workload, help customers assess where they need thin clients versus smart clients, and help them architect the network around that will give them a secure environment, and ability to manage this heterogeneous environment. That's a huge piece of what we've been doing. It really advantages Dell because it plays to our core strength of the client. But, again, the client that we're talking about today is how do manage, secure, and connect, not just the devices themselves -- yes, we'll sell the devices. But that's a part of a much broader solution.

And then in terms of the converged infrastructure, we've been working heavily around integrating all of the storage so that it's unified. It doesn't matter if it's file or block, iSCSI, or fiber. We've been integrating that into a unified storage, adding de-duplication, which makes it very efficient in the manner in which it stores data, and even with policy management to do with overall archiving and manageability of storage. We've unified that. We've combined it with our networking, and our server capability into one frame, whether that be what they call a blade or a rack. And so you can

buy from Dell something that's very application ready. So, if you're going to roll out a new application, such as desktop virtualization, we can roll out a complete infrastructure in a box that will support that application.

And that's really the wave of the future, because CIOs need to be much faster, and much quicker in their deployment of technology to help the C Suite recognize and capitalize on the new opportunities that exist. Those opportunities will all be about speed, because the global nature of our economy is such that speed of access, accessing these opportunities will become ever-increasingly important in time to deployment.

So, from a strategic point of view, we have amassed the capability to do not only the converged infrastructure, and the capability of the cloud, but also to deal with the end point manageability issues, and the migration to these industry standards. This is really what Dell has been doing from a strategic point of view is really addressing these core customer issues around how do they capitalize on the beauty of the architecture, and how do we migrate them from the mess to the beauty on the right.

Now, I would like to progress a little bit of the strategy, and talk a little bit about our recent quarter's performance. It was a quarter where we saw our overall revenue decline, really driven by macroeconomic issues as well as secular issues within the client business. But in our enterprise business, in our solutions business, we actually grew faster than the industry at 6 percent. And today our enterprise business, which I spent a significant amount of my prior chart discussing, is a third of our revenue, and more than half of our gross profit dollars. So, I don't think people recognize that this transition is as far along as it is, because that is the numbers relative to the relative size of our historical client hardware business to this solution enterprise business.

And those businesses in aggregate are growing 12 percent. But there's networking and servers within that grew at 12 percent. Our IP storage grew at 6 percent. Our servers -- I'm sorry, our services grew at 3 percent. And so all of these are growing at a fairly acceptable, or fast level. And within services our security offerings, both from a consultative point of view, and from a -- today services are much more remote managed service as opposed to on-premise management, so those offerings, such as the security offering I was discussing before, are growing dramatically at greater than 30 percent.

I discussed that our end user client is going through the transitions that we're all familiar with. And then we've recently created a software entity. We're amassing all of our software assets. Over the last three years, we've acquired 19 companies. In reality, all except for one of those is really software. Now, some of those were, you would say, storage, and that's true. But even in acquisitions such as Compellent, which was a block subsystem, every single one of the engineers is a software engineer, because that's the differentiation in the hardware. And so we've been amassing all of these resources so that we have a comprehensive capability from a software perspective.

What's very important is not only having the hardware in a converged infrastructure, but building out, as we're doing, the software layers above it which they call provisioning, orchestration, and application awareness, which really addresses the overall simplicity of managing that hardware within your environment. In essence, automating a lot of that complexity that customers have to manage today through a lot of resources and disparate software assets. That's what we're doing from a software perspective.

Lastly, if you look at some of the broader, longer term models that we're addressing, it's clear that our overall client business will be flat to growing modestly, and recognize that within that it's not just the desktops and the notebooks, it includes our entrance with Windows 8 into the tablet market. So, that's a piece of it. But this piece of our model is really going to be slow growth. It's really about cash generation. And really very high return on invested capital, and managing the overall profitability to be at least 5 percent. That's what we have been doing. That's what we did last quarter. That's what we'll continue to do.

Meanwhile, we're making lots of investments and growing above industry the enterprise business. The enterprise business today is about $19 billion. In 2016, our target is to be at more than $27 billion. That will represent a significant growth rate beyond the industry. And, of course, this is higher margin. Our targets for this are instead of 5 percent OPINC, they're really 13 percent OPINC. And overtime we will shift this mix so that our representation in the IT industry is much higher enterprise-centric as opposed to client-centric.

That is just the embodiment from a financial point of view of what I shared with you on the prior chart, two charts ago, where I showed you really the architecture of the future which customers will adopt, and our ability to help customers migrate to that very new, highly efficient, agile environment.

Those are my comments. I would like to now open it up for questions.

AVI SILVER: Thanks, Dave.

Please raise your hands if you have any questions.

I'll just start with a couple. First of all you just talked abut going from $19 billion to $27-plus over the next few years. That implies a CAGR growing much faster than what enterprise spending should be growing. How much of that is Dell taking these acquisitions you made, tripling, quadrupling your revenue from some of these deals as we've seen like with EqualLogic? EqualLogic was actually much higher than that, but versus going out and doing more M&A, especially in the context of you've done a few big deals now, the balance sheet is still in really good shape. You still generate a lot of cash, but how do you think about your -- how much fire power is there left to do future deals and how much of that growth could come from M&A versus growing the acquired entities?

DAVE JOHNSON: Thanks, Avi. Let me try to answer that in three different ways. The first piece is we've shared public information that acquisitions -- the acquisitions we've made over the last three years, the compound growth rate associated with those over that time period has been greater than 90 percent. So, there's no question, as Avi was alluding, not only do we get the revenue from the acquired entity, but our success today in investing in those assets and growing them has been very strong. And that's an element of how we're going to get there.

Secondly, we've been integrating these offerings, right. So, when we talk about the converged infrastructure, there is probably 10 different acquisitions that I illustrated on that page that we are integrating into a common offering for customers and as we do that the value created from a customer perspective goes up, because we're taking some of the workload that they have today around management, as well as resources, out of the equation.

And we'll be able not only to provide that value to the customer by capitalizing ourselves on some of that value, which will mean both higher revenue growth, as well as higher margin growth. Now, that doesn't come for free. That integration is real innovation. Our ability to integrate all that and build next-generation memory architecture into it is an awful lot of very difficult development activity and represents a lot of organic investments. So, part of this is clearly the acquisitions, but it's the investments post-acquisition and the integration across these, they're adding tremendous value to our customers and we're just starting to reap the benefits of that piece, because we've been integrating these things to this point in time.

Now, last point was our capital structure. We've been very successful in optimizing cash flows. That's always been a heritage and a strength of Dell and we expect to continue that. We have a capability historically of generating $4-plus billion of free cash flow, and our expectation is that we'll continue to do that.

So, we do have a strong balance sheet. We do have firepower left. And more importantly, I think, we're going to be able to sustain that, because of our cash flow model. I don't care who you are in technology today, the rate and pace of innovation and the global nature of our industry precludes anybody from doing all of their own investment or development.

You must be open to complementing your organic initiatives with non-organic activity, such as acquisitions. So, I suspect, and I'm very confident that you'll see Dell continuing to complement both the growth of our existing business and acquisitions, and the integration growth on top of that, by continuing to add to our portfolio in ways that will continue to provide value to our customers.

QUESTION: I've got two questions. The first one is, I wonder if you could just discuss how your relationship is evolving with your customers from a critical path perspective, because intuitively it seems to me that moving from a hardware, single set of solutions, to a consulting relationship is a tough road to go. And I'm interested; maybe you could just give some examples of where you've been successful and also talk about who you've been competing with for that relationship. Then secondly, could you just talk about prioritization of capital allocation?

DAVE JOHNSON: I'd be glad to. This is a shift, acknowledging your point, in terms of our sale from being sort of a transactionally-centric transaction to much more of a relationship-centric transaction, because when you put these solutions together you're going to continue to evolve those solutions with a customer for a long period of time. Most of these have high content from a software perspective, and so version control, and version updates, as an example, becomes a new imperative, very different than when you're sort of just transactionally centric. So, the shift involves not only our sales motion, but really everything in the company has to become and is becoming very relationship centric.

Now, Dell is advantaged here, because we've always been extremely customer-centric. And the propensity of our customer set to buy from Dell is extremely high. So, if you were to look at mid-sized companies for a minute as an example, and look at their affinity to buy from Dell or from others, once they've made the decision they're going to buy, it's extremely high and an order of magnitude higher than our closest competitor. And so quite frankly, the customers are driving us in this direction.

As they try to -- they see the beauty of tomorrow's architecture, the want to get out of the complexity of managing all these disparate sets of resources and ecosystems they've created.

They're getting pressure from their board and their CEO, if you're a CIO, on how you're going to take advantage of the cloud, or what are you going to do with big data, or whatever these types of acronyms represent. They're under pressure to reallocate resources from their core into these areas, and they've traditionally looked to Dell and continue to look for Dell to help them with this migration.

So, there's no question that we have had to invest heavily around building a relationship-centric sales force, bifurcating the sales force between the relationship people and the technical specialists who can go in and talk at a very technical level, which we've been investing in for the last several years. But, the beauty of it from our perspective is that our customers are very receptive to it and our progress on this has been quite good, given the type of growth rates we've seen in our enterprise business.

Now, another part of your question, I love these multi-part questions, I hope I capture them all, is can I give you some examples of where we've been successful in these -- we've had a lot of very large service-led engagements. I'm hesitating, because I don't know how many of these customers we have public permission, I apologize, to release. So, I'll look to Rob to help me on that. But, these engagements are of the nature that we go in and lead with a consultative type of a discussion and then migrate that discussion into a much more comprehensive solution.

Some examples I can talk about is take our security. A few years ago I don't think Dell was thought of at all as a provider of broad-based security offerings. That's changing, right. We have acquired three different entities and built on them to give us a pretty strong portfolio from a security point of view. Perhaps the strongest is our ability to go in and talk to customers about how secure their environment is from intrusion. And what we're finding, as we lead with those engagements, the nature of the sales that we make to those customers around whether it's our services from a SecureWorks perspective, which is remote management of your network and identification from a software point of view of any intrusions. And then a capability to assist the customer in mitigating those perpetrators, I guess, all the way to UTM devices that do the actual intrusion protection itself.

So, we're finding that the cross selling between these solutions and the overall size of the awards we're being given are going up. And so we're seeing this happen for us in security. We're seeing this happen to us in migration. So, these data center migrations, we're removing applications from a legacy world into an industry standard. It's almost always accompanied by us gaining a part of the industry standard architecture, servers, storage, and networking, and even a stronger correlation to application maintenance, because if we, on your behalf or a customer's behalf, rewrite or reintegrate your application to run in an industry standard environment, it makes a lot of sense for a customer to expect us all to do the application maintenance. So, if for some reason there was an issue, we'd be obligated to obviously rectify it.

So, we're seeing pretty comprehensively migration where these type of consultative engagements are enabling us to provide a much more comprehensive set of solutions across the marketplace.

And I think the last piece of your question related to capital allocation priorities. I mean, we are committed to somewhere on average between 20 and 35 percent of our capital to be returned to the shareholders via a combination of the recently announced, and the first time delivered third quarter dividend, which is 8 cents per share, or 32 cents a year per share. And on top of that, the rest would be delivered through buyback of stock. And in the most recently completed quarter, we

actually bought back $400 million worth of Dell stock. And over the last few years, I think we've bought back a fairly significant percentage of our stock. So, that's between 20 and 35 percent of it.

Obviously, we'll use the rest to invest in our core development in capital to support that, and a large piece of it will also be used to continue to complement our capabilities organically with non-organic activities that will increase the breadth of our capabilities, and increase the size of the market opportunity that we can address on behalf of our customers.

QUESTION: Two questions for you on strategy. First, if you could articulate your strategy going forward for a tablet offering, and how that works in both the corporate and the consumer client base. And the second question is about data centers. You have a very robust offering for data centers, but some of your ODM partners that you work with are also offering their own ultra low cost data center that seems to appeal to a different client base. And how you're going to operate going forward in kind of a premium data center in an ultra low-cost customized data center environment?

DAVE JOHNSON: Two really good questions again. So, first talking about tablets, we are going to come out with a suite of tablets based on Windows 8. It's the first operating system that we believe is really competitive, and so we will come out with a set. And these will be both traditional tablets, as well as hybrid environments that enable you to have a notebook and pull the screen off and have a tablet or reverse it. So, we have multiple hybrid offerings as well as traditional tablet offerings. So, we will compete in the tablet portion of the marketplace.

Our strength will clearly be in the enterprise, where there is such a strong Windows environment to begin with that this will appeal to address or to simplify some of the issues I was discussing. So, many corporations, if this is a competitive set of offerings, both the hardware and software, will use that to mitigate some of the complexity of their existing environments. And so we'll capitalize on that.

This device will also appeal to consumers, and we will make it available through all of those channels as well. But our model is clearly different than some others who are vertically integrated all the way from the components through the hardware, and through the operating system. We do not intend to make an end-to-end investment. We will continue with our model of being a very efficient distributor of those types of devices from a tablet point of view.

Now, talking about the data center, the data center solutions I talked about are clearly quite different than the database solutions that you're bringing up, which is some very large service -- I'm just explaining your question -- some very large service providers are sophisticated enough that they want to bring the components down to the very base level buy the most inexpensive components, and they'll do all the integration, in essence, themselves. And there are some ODMs that are competing for various components in those, and quite successfully.

Dell also competes in that business. We have actually a very large business in providing a very integrated set of solutions. So, for the companies that don't want to invest in all their own integration and engineers to do that, we have the ability to integrate not only the very low cost server elements, but also the networking, power, cooling, storage, into, in essence, a very large infrastructure that we can deliver, in essence, as a data center in a carrier, and we can drop that on people's roofs, and have, or we can put it in a field. And in a very short period of time it, in essence, is a data center.

So, our offering is very different from what some of the ODMs are offering, which is very low cost piece parts, but you must integrate it and build the data center on your own to we have a very low cost and efficient integrated data center offering that we can drop and really shorten the time to deployment. Again, our strategy is all about ease of use and time to deployment. And so we are very consistent on those themes. So, our implementation dramatically cuts down on all of the effort that the customer needs to do in order to implement our solutions. So, we have a very different strategy there.

Now, I also would like to explain that many companies must decide which applications they want on and off premise for the reasons I articulated before, whether it's security, regulation, performance, whatever the reason is, many customers, if not most, are going to live in a hybrid world where they run some applications on premise, and some applications off premise in some form of a public cloud, let's say.

But once you've made that determination that you've got to have some applications in your environment. There are all sorts of advantages for a company like Dell that is a developer and distributor of those core components, because we'll be able to burst to a comparable environment. So, that will allow customers to operate their data center at average workloads versus peak workloads as long as they know the infrastructure on the public cloud side is comparable to the private cloud side. Then that provides all kinds of flexibility for them, which a traditional public cloud can never provide, because they can't mimic the exact environment they'll have on premise.

So, again, a different strategy, but one that clearly in that space also advantages our unique capabilities. So, whether or not it's in the purveyor of data centers that lends itself to our capability to fully integrate, or whether it's a public-private cloud hybrid, it plays to our ability to provide a comprehensive set of software, hardware and solutions that represent the next generation of converged infrastructure.

QUESTION: Hi, kind of a follow-up on your new tablet and mobile hybrid notebook PC side. Can you tell me a bit more about the retail ASP will be for roughly at what range, and so far Intel's ambition on ultrabook seems to be pretty much a failure, and so many people are talking about the issue of high SP. So, I'm wondering how Dell will get new product, and at what price, and how do you see any upside carriage to drive more adoption for Windows 8 or next generation of hybrid notebook?

DAVE JOHNSON: I think I understand the question, and I'll just repeat it for everybody. I think there's a question around our launch strategy associated with our recently announced but not yet distributed sets of new Windows 8 centric products. Again, since we have not yet disclosed publicly our pricing strategy, so respectfully I can't in this forum really have that discussion with you relative to our overall pricing strategy on these tablets. I apologize, but this isn't the right forum for that disclosure.

QUESTION: Hi. I had two questions. Firstly, listening to some of the conference calls from the last quarter, I'm looking at Lenovo's market share gains at much lower than the 5 percent margins you site for core Dell. What gives you the confidence that that 5 percent margin will be sustainable over the medium term? And are you prepared to cede market share to keep it?

And the second question, really given the high cash generation of the company and the low stock valuation, why not be much more aggressive on the share buyback than you've considered at present?

DAVE JOHNSON: Okay. We seem to be featuring double-headed questions on all of these, so I'll try to again answer both in order. In terms of our strategy vis-à-vis a Lenovo, acknowledging the point, again, which is correct that Lenovo did gain share this past quarter, they are clearly on a very different strategy. So, the question becomes, can we sustain, can Dell -- I think, I don't mean to be putting words in your mouth, but please nod.

Basically your question is, can we sustain that strategy? And the answer to that is yes. Again, we're on a different strategy, which is a much more comprehensive set of capabilities. So, we can go in today and say, well, let us go look at your workload and assess where you need a thin client versus a smart end user device. Not only that, we can help you architect the network around it so that you can have both ease of manageability and security around that.

So, the cost, as we all know, associated with this business is no longer associated with the physical hardware. The management of that environment on an annual basis is some multiple of the cost of acquiring the infrastructure. And so the biggest difference between the Dell strategy and the Lenovo strategy is, they're clearly addressing the component and hardware cost.

We're also trying to address the environment in which those devices are managed, and address that cost which is a much bigger problem, and a much bigger cost pool. And that is very differentiating when you can have that discussion. Devices just become a piece of the solution when you talk about the network, security as well as the manageability of that overall environment. And so we're trying to address all aspects of this with our customers.

In terms of the second piece of this relative to why not buyback additional shares, I think I sort of covered that a little bit in the capital allocation philosophy. I mean, there is a tremendous shift happening in our customers. It's one of those times in the industry tremendous inroads can be made for those that capitalize on these disruptive forces. It's Dell's intent to drive tremendous value for our customers and for our shareholders by executing on that strategy to adopt and enhance these disruptive trends in the industry. We believe that's a much better investment model.

It doesn't mean we won't also be balanced in terms of dividends and stock buyback, but we believe we will return a higher rate to our shareholders through these other investments.

AVI SILVER: One in the front.

DAVE JOHNSON: Yes, this gentleman has been trying to ask me a question for a while.

QUESTION: Thank you very much. Dell is moving more towards enterprise solutions, and that's a higher margin business. HP is also going that direction for the margins, and so are a lot of players. Wouldn't the margin in that inevitably for this type of business go down? I mean, what's your thought on that?

DAVE JOHNSON: Look, everything is subject to competition. So, I think there's always some level of margin compression if you don't continue to innovate, and don't continue to differentiate. And so the challenge will be for all in the industry to provide a value to our customers that's so great that we

both can win. They win in terms of higher productivity, and we as an industry win in terms of higher margins.

Our strategy is headed in that direction. I mean, as we move to this converged infrastructure, we're quite confident there are elements of it that will be quite differentiated, and we'll capitalize on that through a combination of margin and share gains, as an example of where I see these types of opportunities for us.

AVI SILVER: Okay, with that we're going to have wrap-up.

Thanks, Dave. Thanks, Rob.

DAVE JOHNSON: Look I want to express my appreciation to everybody, and hope you have a great time here in Hong Kong. Thank you very much on behalf of Dell.

(Applause.)

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