OPERATOR:

Good afternoon and welcome to the Dell Inc. Third Quarter Fiscal Year 2013 Earnings Conference Call. I’d like to inform all participants this call is being recorded at the request of Dell.

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As a reminder, Dell is also simulcasting this presentation with slides at www.dell.com/investor.

Later we will conduct a question and answer session. If you have a question, simply press star then one on your telephone keypad at any time during the presentation.

I’d like to turn the call over to Rob Williams, head of Investor Relations.

Mr. Williams, you may begin.

ROB WILLIAMS:

Thanks, Regina.

With me today are Michael Dell, Brian Gladden, and Steve Felice.

The web deck and our Dell Shares vLog, with Brian and Steve, featuring more insights on the quarter are posted to our website in advance of the call. I encourage you to review these materials for additional perspective.

Next, I would like to remind you that all statements made during this call that relate to future results and events are forward-looking statements that are based on current expectations. Additional results and events could differ materially from those projected in the forward-looking statements because of a number of risks and uncertainties, which are discussed in our annual and quarterly SEC filings, and in the cautionary statement in our press release and web deck. We assume no obligation to update our forward-looking statements.
Please also note that will be referring to non-GAAP financial measures, including non-GAAP gross margin, operating expenses, operating income, net income, and earnings per share. Historical non-GAAP measures are reconciled to the most directly comparable GAAP measures in the web deck posted in the Investor Relations section at Dell.com, and in our press release and 8-K filed today. I encourage you to review these documents.

Please also note that unless otherwise mentioned, all growth percentages refer to our year-over-year.

Now, I would like to turn it over to Brian.

BRIAN GLADDEN: Thanks, Rob.

Four years ago this month, we embarked on our strategy to deliver end-to-end solutions to our customers with a scalable design point. Since then, we've made great strides in executing this strategy and continue to add to our capabilities. In the third quarter, our Enterprise Solutions and Services business revenue was $4.8 billion, up 3 percent, led by 11 percent growth in our server and networking business. These businesses, which were about $14 billion in FY '08, are now at an annual run rate approaching $20 billion. Year to date, they are up 4 percent, and have generated more than 50 percent of our non-GAAP gross margin over that period of time.

Year to date, we’ve added AppAssure, SonicWALL, Wyse, Make, Clerity, and Quest, bringing enhanced capabilities to a portfolio of software and services that address many of our customers' most pressing needs, including security, cloud, data backup and protection, systems management, and application modernization. Specifically, the addition of Quest Software during the quarter provides us with a foundational asset for our software business, which will contribute to a higher mix of solutions with more predictable revenue and margin streams.

While there is no question that we’re in a challenging global IT demand environment, especially in the core PC business, we’re fully committed to our strategy. We continue to make key investments to drive our transformation, and we’re seeing important progress at building a strong enterprise franchise as we move through the year.

Moving to the quarter, we delivered revenue of $13.7 billion, down 11 percent, and at the low end of the revenue range we provided in August. I'll refer to non-GAAP financial measures going forward.

Our gross margin was 22 percent, down 60 bases points sequentially. As a reminder, gross margins in the second quarter benefited from approximately $70 million or 50 bases
points, primarily resulting from a vendor settlement. When you normalize for this benefit, the mix to ES&S is helping stabilize margins as we see incremental margin pressure in our client business.

We continue to be disciplined in managing our discretionary spend. OPEX dollars were down $20 million sequentially to 15.5 percent of revenue as we absorbed about $60 million of OPEX associated with Quest, and another $90 million of strategic spend in R&D associated with recent acquisitions and organic investments.

Operating income was $886 million or 6.5 percent of revenue. Earnings per share of 39 cents declined 28 percent. We generated strong cash flow from operations of $1.3 billion with an ending cash and investments balance of $14.2 billion. Our cash conversion cycle of negative 32 days improved two days sequentially driven by better inventory and receivables management. Our cash flow will continue to benefit from the changes in our business model as we migrate to more software and services based solutions.

With our solid cash flow, and commitment to a strong balance sheet, we've invested $4.7 billion this year to acquire new capabilities and intellectual properties. We've paid out $139 million dividend distribution in the third quarter, and including our stock repurchase program, we've returned almost $900 million to shareholders year to date.

Turning to our lines of business, our Server and Networking business grew 11 percent, representing the 12th consecutive quarter of growth. Servers increased 4 percent driven by strong growth in our hyper-scale data center solutions business, and continued traction with our 12th Generation servers. 12G Servers now represent two-thirds of our server revenue at ASPs and margins that are a premium to our previous generation servers.

Collectively, our differentiated intellectual property and solutions has resulted in a growing share position. Our networking business increased 40 percent as it continues to benefit from the 12G Servers, and native 10 gigabyte Ethernet on the motherboard. During the quarter, we launched our Active Infrastructure converged offering. This brings together Dell hardware, software, and services under a common design architecture that offers customers a robust and easy to manage data center infrastructure for applications, virtual desktop infrastructure, and cloud deployments. By making these deployments simpler and easier to manage, we're addressing key customer needs in these growing market opportunities.

Dell storage was down 3 percent to $378 million in a challenging environment, and this was below our expectations.
Over the past six months, we’ve introduced enhancements to the portfolio including new backup and recovery and replication solutions, new storage compression and dedupe technologies, improved Compellent Management Software, two new converged data center solutions, and NAS capability on the fiber channel. We believe these enhancements position us well when industry demand in this important business segment improves. The services business was down 1 percent year-over-year, and flat sequentially at $2.1 billion and 5 percent growth in support and deployment and 16 percent growth in our security business. Our services backlog increased 2 percent to $15.8 billion. Gross margin percent increased sequentially for the sixth consecutive quarter as we continue to improve our cost structure and focus on higher margin areas of the services landscape.

Absent BPO we continue to make progress on improving profitability, which is having a short-term impact on our revenue growth. Our Dell software business continues to introduce innovative solutions focusing on security, applications, systems management, and business intelligence. For example, we sold more SonicWALL SuperMassive, next generation firewalls during the quarter than at any time before. With 96 cores, SuperMassive’s full deep packet inspection provides the highest level of malware detection and elimination than any firewall in the market. We also updated our security management tool, enabling the management of up to 5,000 firewalls from this single console.

Finally, Quest vFoglight storage 2.0 is an integrated solution that provides application to disk performance monitoring and enables server and storage teams to jointly resolve virtualization performance issues. These all represent competitively differentiated capabilities we did not have a year ago. Our third party software and peripheral revenue was down 11 percent, driven by the contraction of desktop and mobility products.

Our desktop and mobility business was down 19 percent. Our results here were mixed. Our desktop business held share relative to last year, while notebooks lost share, and did not perform to our expectations.

We’re launching new cloud-based client solutions based on our Wyse IP. Last week we unveiled the Wyse cloud client manager, which gives IT managers the ability to expand beyond the firewall to manage multiple mobile and thin client devices, regardless of the operating system. This provides customers the ability to more effectively and securely manage BYOD implementations. Going forward we’re focused on selling client and virtualization solutions in our commercial accounts. We enhanced our focus on our client acquisition business including
a simplified pricing strategy. And we’re driving more than $1 billion in cost-out initiatives specific to the client business.

Now, I’ll turn it over to Steve Felice to give an update on business segment results.

STEVE FELICE:

Thank you, Brian.

Large enterprise revenue was down 8 percent. Enterprise solutions and services grew 5 percent, including 14 percent growth in servers and networking. Operating income was down 170 basis points sequentially to 7.8 percent of revenue. Here we saw a reduction in the number of client opportunities as many large commercial customers continue to defer purchases of discretionary IT hardware. We are seeing success in winning new business, but given the long-term nature of these opportunities they will not impact revenue in the short term.

Our public business was down 11 percent. We did see the expected end of Fiscal Year ramp for the U.S. federal business, but also as expected we saw a significant contraction in spending in October. We continue to see budgetary constraints in Western Europe government spending and global state and local government spending. But, despite this, we remained disciplined that sequentially were able to increase gross margin percent and reduce OPEX spend. Public operating income was down 10 basis points sequentially, to 9.2 percent of revenue. SMB continues to be the most stable customer set for Dell as revenue declined 1 percent. Similar to large enterprise we saw enterprise solutions and services growth of 15 percent, including 22 percent growth in services and 16 percent growth in servers and networking.

Operating income was down 110 basis points sequentially to 10.6 percent of revenue. This business continues to exemplify the progress of our transformation and despite the macro backdrop we feel it’s important to invest through this macro cycle. Enterprise solutions and services mix has improved for six consecutive quarters with expanding margins over that period of time.

The consumer business continues to be a challenge with revenue down 23 percent. The operating loss was 65 million or -2.7 percent of revenue. Industry growth in this space continues to occur predominantly in the low value and entry-level desktop and notebooks, where we’ve chosen not to participate and in tablets. With the launch of Windows 8 we have new tablets and convertibles, including the XPS 10, XPS 12, and Latitude 10. In addition we have two touch-enabled all-in-one desktops. While it’s too early to share specific demand numbers, we are encouraged by the initial customer interest in our touch-enabled computing.
With that, I'll turn it back to Brian to discuss our outlook.

BRIAN GLADDEN:  

Thanks, Steve. Consistent with our comments last quarter and with what you're hearing from many other technology companies, we continue to see a challenging global, macroeconomic, and IT spending environment, which is clearly impacting our results. We don't expect that to improve much in the fourth quarter. For revenue we expect sequential growth of 2 to 5 percent. You should also remember that last year’s fourth quarter included a 14th week.

For the full year we continue to outlook at least $1.70 in earnings per share on a non-GAAP basis, which works out to at least 38 cents for the fourth quarter. This incorporates a 1 to 2 cent diluted impact from the inclusion of question software for the fourth quarter. We expect our full-year non-GAAP tax rate to be approximately 20 percent. Before we take questions let me close with a few summary points.

We're pleased with the enterprise solutions and services business. With a revenue run rate approaching $20 billion, growing at roughly mid-single digits and strong profits, this is a business where we'll continue to invest and accelerate our growth. In end user computing we have work to do, but are encouraged by early interest in our new Windows 8 touch portfolio and the new opportunities we see in our commercial and consumer businesses. As always, we’ll be balancing liquidity, profitability and growth to optimize the company for long-term success. Now, let me turn it over to Rob.

ROB WILLIAMS:  

Thanks, Brian.

Just a quick reminder to limit your questions to one with one follow up.

Regina, can we have the first question?

OPERATOR:  

Ladies and gentlemen, we will now begin the question and answer portion of today’s call. If you have a question, please press star one on your telephone keypad. You will be announced prior to asking your question. If you would like to withdraw your question, press the pound key. Your first question will come from the line of Scott Craig with Bank of America.

SCOTT CRAIG:  

Hey, thanks, good afternoon.

Can you guys maybe walk us through the consumer business, the operating profit there was obviously a challenge this quarter and I know you guys have been more selective recently, but can you maybe give us your thoughts on restructuring that business, or maybe waking away from more business there. And then my second question goes around the large enterprise
side and what sort of margin pressure are we seeing there on the PC business? Thanks.

BRIAN GLADDEN: Yes, Scott, I'll start on consumer and Steve can jump in. Clearly in consumer it's been a more challenging environment. Emerging markets have slowed. They've moved to lower value products. We also saw in the quarter expected channel dynamics around the Windows 8 launch. I would say we're sticking to our focus on mid to high-value segments of that business and not really chasing the lower end of that space. We said last quarter that we didn't think the consumer market would improve until after the Windows 8 launch, and definitely we've seen that.

So, we're committed to the strategy here. We understand that the importance of the business and the importance of scale that comes with that and as we've talked about and Jeff Clarke talked about this summer, we continue to focus on cost reductions that are important to stay competitive here. So, maybe Steve can give a couple of comments.

STEVE FELICE: Yes, I totally agree with Brian that we don't see a need to change from the strategy. We certainly see a few things that happened in the last quarter that we don't really believe are sustainable changes. For example unlike some of the prior declines in the economy, we saw a bigger decline in emerging markets and that's different from the past and China being in negative growth, India being in negative growth, Brazil being in negative growth, we don't think that's going to stay that way. We do believe that that's relatively short-term, although we don't know exactly when it's going to pull out. But, we do already see signs that China is doing better.

We also think that there was earnings pressure because of this transition to Windows 8. That's another thing that we think will ease itself out, but as you may recall we thought that after last quarter's earnings discussion, we thought the industry inventory was high. And that it would take some working out and especially that's exacerbated by Windows 8. So, we think there's some certain short-term things that will not continue. We certainly do see a challenging environment in Europe. And so we don't see that improving very much. But, we're hopeful that the emerging markets will start to show some recovery.

BRIAN GLADDEN: Yes, Scott, on the large enterprise I would say clearly some pressure on the client side. We saw some nice growth in enterprise solutions and services. They grew at 5 percent. We saw 14 percent growth in servers and networking in that space. And this is clearly a place where we're seeing commercial customers defer discretionary spending in this sort of environment. And that's clearly something that we've seen work its way through. Not clear that there's going to be -- I mean, there continues to be a big opportunity around the
Windows 7 refresh that's not completed yet. And that's still out there and we expect that to continue as we head into next year.

STEVE FELICE: On the client side we saw in the industry unit growth down about 9 percent in the commercial space. So, you're just seeing some additional competitive behavior and while we're staying committed to the strategy we're also going to defend our turf here. So, I think we're in good shape with our customers. And we're showing that in the cross-selling ability, because we are selling a lot of servers and networking and services into this space. So, we have a healthy relationship with the customers and we view this more as this normal, macro competitive environment.

ROB WILLIAMS: Thanks, Scott.

OPERATOR: Your next question will come from the line of Bill Shope with Goldman Sachs.

BILL SHOPE: Okay, thanks. Can you comment more specifically on the drivers of the client margin pressure overall and how we should think about that going forward. And I believe you just said that you wanted to defend your turf, or that was part of the reason why you saw some margin pressure on the client and the enterprise business. Does that signal somewhat of a change in strategy to where you are, sort of drawing a line in the sand in terms of how much market share you're willing to give up, specifically in the enterprise category?

BRIAN GLADDEN: I think we're not changing the strategy we're focused on profit share here. There clearly are some places where we're going to defend our turf and important parts of our business. Enterprise for us is critically important, and we've shown that we can grow in that space. When you look at client margins, one thing obviously we had the vendor settlement impact in the business that affected the second quarter and gave us a benefit in the second quarter. That for us gives us a little bit of a challenge quarter-on-quarter when you look at gross margins. But, it's clear there's been client pricing pressure as a result of the competitive dynamics in a weaker demand environment. And that's something that we expect probably will continue for a period here.

BILL SHOPE: I guess as a follow-up to that can you give us an update on component pricing trends and how you're thinking about that as we close out the year?

BRIAN GLADDEN: Components generally have been about as we expected, as we sort of teed it up coming into the year. It's basically what we've seen. We had some moderate deflation in the quarter, I would say, not what would have been historical deflation, but basically what we would have expected coming in. And we're
expecting more or less the same situation as you head through the fourth quarter.

**BILL SHOPE:** Okay. Thank you.

**OPERATOR:** Your next question will come from the line of Toni Sacconaghi with Sanford Bernstein.

**TONI SACCONAGHI:** Yes, thank you.

I wanted to revisit the client question. I appreciate the fact that the market is very difficult, but it's clear that you're losing overall client share and even if we back out consumer, certainly on the mobility side, you were down in the 20s on the corporate side for mobility, so it's clear that Dell is losing share. If we think about that impact on the business we've seen the consumer business de-scale as a result. And you're starting to see pressure on margins. When you lowered your guidance for this year I think that was largely a reflection of the fact that you've de-scaled, not that your gross margins have gone down, but that you've de-scaled. So, against that backdrop, why wouldn't you tilt the balance, or do something a little more radical here going forward. And what I mean by that is why not be a little bit more aggressive and give up some gross margins to preserve volume so you don't run that de-scaling risk that we're starting to see signs of, or why is there not a stronger focus, and a very deliberate and material focus on taking out cost?

**BRIAN GLADDEN:** Look, Toni, I think there are -- the effort around cost is clearly a priority for us. We think we're in a position right now where our scale is competitive. And given the size of the business, but also the higher value elements of our business, the fact that the buy that we have with our supply base tends to be a higher end buy, given our commercial mix. We think it positions us well from the scale standpoint. Clearly we're not going to go and shift our overall strategy in this sort of an environment. We think that this is more of a short-term, macro-economic set of dynamics that we're facing that as it works its way through we'll see PC demand improve. And as it improves you'll see the scale return. So, that's really how we're thinking about it.

**STEVE FELICE:** And we did, Toni, have some good wins on longer-term client buys in the quarter. And as I said in my comments, you won't see them in the current quarter, but we had better wins than we've seen in a while. So, I think we are starting to get some of this business back over the longer-term.

And the other thing I'll point out is that, I'll go back to the emerging market point, because that had a bigger effect than we've seen in the past. And these are areas where we have a really strong position with customers, and we really do believe
it was more short-term, or I should say macro-oriented, whether it's short-term or not depends on how they pull out of it. But we did not lose customers, but we did see a big slow down in their purchases.

We are working on a few things to get more competitive, and to make things simpler for our customers. We have introduced a dramatically simplified pricing strategy in the U.S. just in the past week or so, and I think as people go on to Dell.com, and look on the commercial side, you'll see that, where it's very easy to determine what our pricing is across any of the businesses. We're also aggressively continuing to work on the $1 billion cost out in the client area, and we believe we're making good progress there, and that it will enable us to play in a broader range of price bands next year.

So, we hear you on some of these things, and we are intending to go after a broader part of the market, but we want to do it under the same strategy of being profitable, of delivering value. We're not just going to go after the low price bands if we don't see a value proposition where it's sustainable to customers.

**TONI SACCONAGHI:**

If I could use my follow-up just to continue that discussion, if I look over the last several quarters, last eight to ten quarters, Dell has been growing about 5 to 10 points slower than the market on the client side. So, even if client growth does return, and I understand the cyclical points and pressures that the business is under, even if it returns and it's a low single-digit business, that still suggests low single on the unit side, that still suggests if your relative share position is going to be the same that you're going to be down in unit terms, and then there may be pricing pressure on top of that.

So, how do you think about that equation going forward? Do you think that market growth will be higher, or what substantially is going to change in terms of your relative share on a go-forward basis to what we've seen over the last five or eight quarters?

**BRIAN GLADDEN:**

Toni, I don't think we're in a position to make a call on overall PC demand as you move forward. I do think that the position of our business, the strength of our commercial franchise in the client space as well as the broader portfolio, they continue to be important assets for us and they're well positioned. We think we can -- as you know, there's a whole set of lifecycle profits that really come from having those customer relationships, and the profitability that drives across the support business, and our S&P business, and our financing. So, it's important that we drive that part of our business where we can capture that value and maintain a strong share position. And it really does help the other parts of the portfolio. So that's I think what you'll see us continue to focus on.
STEVE FELICE: If I could just add a little bit on the product side, clearly we're starting to see a lot of receptivity to virtualized clients, and that drives a more profitable client business for us, but it also has a big drag-on effect on the enterprise. And so with the addition of Wyse, we're seeing really good progress out of that and the synergies it has with the rest of our business.

We also are starting to see a lot of receptivity to the way we've approached the tablet market from a commercial perspective. I've been meeting with lots of customers who continue to say that they're needing to prioritize security and manageability as they try to roll out tablets in their environment. And specifically products like the Latitude 10 that has things like security built into it with a smart card feature, and even something like a replaceable battery, these are things that are resonating well on the commercial side.

So, those opportunities are going to broaden that commercial business for us. And that should help us get back to growth.

TONI SACCONAGHI: Thank you.

ROB WILLIAMS: Thanks, Toni.

OPERATOR: Your next question will come from the line of Steve Milunovich with UBS.

STEVE MILUNOVICH: Thank you. First a clarification, you said that as your business shifts towards software and services it improves cash flow. You had previously said that as you move away from the client business into the enterprise business that actually kind of hurt your cash conversion cycle. Could you just clarify that comment?

BRIAN GLADDEN: Yes, there are big parts of the software and some elements of the services business where it's a cash up-front business. And deferred revenue balance, as you've watched it over the last several quarters, has continued to grow for us. That has obviously contributed cash flow in that model. And as that becomes bigger with Quest, and some other key assets in the portfolio, that's going to be a good thing for us.

STEVE MILANOVICH: Okay. And on the enterprise side, certainly when one talks to your competitors they're pretty dismissive of Dell in the enterprise. You are showing some good early results. What are they missing? Where do you think you differentiate versus traditional competitors? I know you've talked about a flatter and cheaper architecture, but maybe you can talk a little bit about some of the architectural approaches and markets that are a bit different from what your traditional competitors are doing?
MICHAEL DELL: Well, we hope they continue to take that approach to not understanding what we're doing. I'll point out that this is roughly a $20 billion business, and growing pretty nicely. If you look at x86 servers, which are really the core of that business for us, we have achieved leading share in North America, and we were the only company among the top three to grow in every region of the world in that space.

We are really innovating in the enterprise without having to protect a legacy of mid-range and mainframe products, and we believe that's a highly differentiated approach. And the combination of what we're doing in networking, storage, and the ability to combine those and manage those I believe is resonating very well with our customers.

So, you saw last quarter servers and networking grew 11 percent year over year, particularly a lot of success with our 12th Generation Power Edge, which is sort of the crown jewel of the portfolio. We have beat our competitors to market, and in the highest volume category we have really outdone our competitors here in terms of the capabilities of those products. So, for example, we have a product right in the core of this product line that has 63 percent more storage capacity than our principal competitor's. So, you think about applications like Hadoop, big data, SharePoint, Exchange, all the growth in hosting activity and cloud activity that's going on with things like Open Stack, Dell is incredibly well positioned to serve those customers. In fact, our DCS Server Business grew 126 percent year over year, which is markedly faster than overall market.

So, I think we're very well positioned in the enterprise, and our services portfolio is very well aligned to help customers transition from those legacy architectures to x86.

ROB WILLIAMS: Thanks, Steve.

OPERATOR: Your next question will come from the line of Ben Reitzes with Barclays.

BEN REITZES: Yes, thanks a lot. Maybe for Michael and Brian, on your Analyst Day, you guys are one of the first companies to kind of put out some realistic numbers for PC growth, and then you said there could be a downside scenario of negative 5 percent.

Does the performance in this quarter, and what you're seeing into the next kind of change that view, does it mean that we're at the negative 5, and that's what it should be? Just are there any other thoughts around that long-term growth rate, and should we assume that it is hitting that worst case scenario now, and could be negative 5 for a long time? Any perspective? Thanks.
BRIAN GLADDEN: I think you have to look at it over a longer window of time. The reality is, I mean, we're in a pretty noisy market in terms of the transition of the operating system, in terms of the inventory dynamics that are playing out there, as well as the macro. If you take a look at the industry over a longer period of time, there still are some significant positive trends that I think bring this back. And it's difficult in this sort of environment to make a call around the long-term dynamics of the client business.

BEN REITZES: Okay. And just as a follow-up, with regard to your guidance, 2 to 5 percent growth, it looks like almost $500 million in revenue. I kind of get $100 million from Quest. Can you just tell us where you get the growth sequentially? Is that normal seasonality, or is there something else that should pick up that we should key on?

BRIAN GLADDEN: It's generally the normal seasonality, and the consumer mix that you would expect to see around the holiday season that drives fourth quarter to be bigger than the third quarter. Quest for us should be actually more than that, it should be approaching $180-200 million of sequential revenue. And then you have the seasonal impact of the consumer business.

BEN REITZES: Okay. Thanks a lot, guys.

ROB WILLIAMS: Thanks, Ben.

OPERATOR: Your next question will come from the line of Maynard Um with Wells Fargo.

MAYNARD UM: Hi. Thanks. Just the first question is a clarification, just on the gross margins, last quarter you talked about in your 10-Q any potential vendor change in sales program impacting you. Was there anything that happened this quarter that impacted your gross margins? And then I have a follow-up.

BRIAN GLADDEN: Yes. Nothing material, Maynard.

MAYNARD UM: Okay. And then just on the storage side, I was wondering if you could just be maybe a little bit more specific if this is a function of the macro, something in the competitive environment, or maybe an impact from your server improvements; and then if you could just remind us where the EMC business is now, has that pretty much reached levels where that won't be declining going forward? Thanks.

MICHAEL DELL: Storage was down 3 percent year over year, which is likely inline with market growth. We have a number of enhancements to the portfolio. And I think another important element here is that the line that separates servers from storage is really blurring. We have a large customer that we now installed over an exabyte of storage in for their cloud and
it's one of the most recognized companies in the world, but that exabyte of storage is all contained within Dell servers, so none of it shows up in our storage revenue.

And as I mentioned earlier, we have a server that has, the 2U Server that supports 38 terabytes of storage, you'll note that that's right in the heart of the midrange storage capacities. By the end of this month, that same server will be available with 50 terabytes of storage. So, the lines here are really blurring with converged infrastructure, and our overall enterprise server, storage, networking business is kind of growing in the mid single digits, and I think well positioned.

MAYNARD UM: And the EMC piece?

MICHAEL DELL: Oh, EMC is de minimis.

MAYNARD UM: Thank you.

OPERATOR: Your next question will come from the line of Shannon Cross with Cross Research.

SHANNON CROSS: Thank you very much. I wanted to ask first about the public business, just what are you hearing from government? You noted a slowdown in October in the U.S. How should we think about what the federal government in the U.S. is doing as we move towards this fiscal cliff? And then, just in general, I'm curious if there's been any signs of improvement maybe in China, or Europe, or if it just remains relatively muted?

STEVE FELICE: Well, I think in the U.S. we're in the same position everybody else is. We are waiting for decisions to be made, and it will affect public budgets. But right now, with the uncertainty that's remaining, there's not a lot of budget available. So, as soon as the September month ended, and they got their approved budget spending out of the way, it shut down quite a bit.

And so until there's clarification it's hard to predict where that's going to go. Western Europe, we continue to see weakness in the public sector as you would expect with their debt crisis going on there. And that one also does not show any near-term signs of improvement.

The rest of it is spotty. Asia does show some signs of recovery, although as I pointed out earlier it has been one of the biggest changes I think from previous financial economic downturns is the fact that you saw BRIC countries slow down as much. So, while it's stabilizing and coming back, it's still below what would be a normal expected growth rate.

So, I do think, again, looking at what's going on in China, for example, that we would expect that economy to return, and
that we could see improvements, but we're not sure exactly when.

**SHANNON CROSS:** Okay. And then, as a follow-up, I'm curious, from a capital structure perspective, or at least from a use of cash perspective, given that stock is under-pressure after hours, obviously it's been under pressure for quite a while, is there any thought to being more aggressive with share repurchase at these levels, or how are you thinking about the cash balance that you're holding given some of the changes, I guess, that have occurred in the marketplace?

**BRIAN GLADDEN:** Yes, Shannon, I would just reiterate what we said this summer, that we're committed to deliver between 20 and 35 percent of our free cash flow to shareholders. We're going to be pretty disciplined about that. We're over that on a year-to-date basis and on a trailing 12-month basis. As you know, we did a substantial amount of acquisitions this year, $4.7 billion, and we're going to continue to manage to that in a disciplined way.

**SHANNON CROSS:** Thank you.

**OPERATOR:** Your next question will come from the line of Jim Suva with Citigroup.

**JIM SUVA:** Thank you very much. When we look at the tablets out there, the industry looks like there is some pretty aggressive pricing going on, not only coming from the Asia companies, but from the other ones also. I guess the question is can you make profitable money in the tablet sector, and is it comparable to your PC margins or higher or lower, because the concern may be that the tablet industry may structurally be the permanent shift to lower profitability.

**STEVE FELICE:** Well, our focus on tablets has primarily been in the commercial side, and the feature set that is required there matches up with a richer configuration. And we do think that there is a profit stream there. It also has a lifecycle profitability attached to it in terms of services agreements and other add-ons that we think is attractive to us.

So, we continue to hear a lot of noise from CIOs about having to deal with the added cost and complexity of not having a standards based product as a tablet. And so, we're pretty encouraged by the reaction to the Latitude 10, and we do see this as a profitable product in the commercial space.

**JIM SUVA:** Great. And my follow-up on the stock buyback question, if you were going to sub that in the first half of the year of your stock buyback, and if I read the cash flow statement correctly, it looks like you did not buyback stock this quarter. Maybe I misread that. Is that fair to say that for this quarter you pretty much exhausted your capital for your stock buyback, or with
the stock under pressure I guess it was a little surprising that you did not take advantage of that?

**BRIAN GLADDEN:** Yes. I would just again reiterate the commitment that we have, and the fact that we were, from a year to date standpoint, and we look at it over a longer period of time, some quarters will be above the range, some quarters will be below. The reality is, as you know, we had a large acquisition in the quarter, $2.4 billion, and year to date we're ahead of the commitment.

**JIM SUVA:** Thank you so much for your clarity, gentlemen, I appreciate it.

**OPERATOR:** Your next question will come from the line of Katy Huberty with Morgan Stanley.

**KATY HUBERTY:** Thanks. Good afternoon. How do you gain confidence that the acquired storage businesses aren't losing momentum given the growth rates are now closer to the market. You no longer are taking share. And is that where some of the $90 million of assessments in acquired businesses, is that where some of that is going?

**MICHAEL DELL:** I think there are definitely opportunities to improve some of those businesses. The pipeline is pretty healthy when I look at the demand. What we also see is we're growing fast in the part of the product line that has a pretty long tail of revenue. So, pretty encouraged with what we see there.

And we're just introducing a whole range of new products this week, in fact, at our Dell Storage Forum in Paris. So, I think we're in reasonably good position there. We have been adding sales capacity, and investment in the sales specialist to be able to drive that business further. But it's definitely an area where we're going to be looking for higher growth rates.

**KATY HUBERTY:** And then gross margins, Quest should drive a nice boost sequentially. Is there any reason that the October quarter, Brian, wasn't a trough in gross margins over the longer term? Is there any risk that PC volumes and pricing would offset the Quest benefit.

**BRIAN GLADDEN:** Yes, Quest helps, and clearly the faster growth on the enterprise side with higher gross margins is a good thing that over time will continue to push gross margins up. I think in the next quarter I'd highlight two challenges. One is just mixes, you have a bigger consumer business that typically plays out in the fourth quarter. And there is some pricing pressure on the client business side. So, we'll manage through that. But, there are some good macro trends that are driving margins up over time.

**KATY HUBERTY:** Thank you.
MARK MOSKOWITZ:

Thank you, good afternoon. Michael or Steve, I’m just trying to get a sense here in terms of the enterprise growth, how much of that is related to customers who are new to Dell and they look to your PC business kind of as a loss leader? I’m just trying to understand the value of retaining the PC business longer-term. If these are newer customers are driving the enterprise growth aren’t buying your PCs, why keep the PC business?

STEVE FELICE:

Well, for several reasons. First of all, we continue to see a need where with the trends in technology to have an end-to-end solution when you think about the trends that are going on in bring your own device, in virtualized desktops, and cloud computing. All of these things leave Dell as a trusted advisor with a lot of customers to give them a solution from end-to-end. We also have a nice cash business with our client business. There’s a lot of benefits to it and our commercial client business drives very healthy profitability. On the enterprise side you could see from the server performance that we are taking share. We are gaining new customers. We are gaining them around the world. We’re now number one in Asia. And that’s because we’re winning new customers in China.

Michael talked about our leadership position in the U.S. In particular, I talked about the strong growth in the SMB market. We grew enterprise quite a bit there. We resonate really well with those customers and they have a little better wherewithal to spend money right now. So, I think we’ve performed really, really well there. So, this is also -- the SMB is also a customer set that does look to Dell as a trusted advisor across all the products. So, we have great cross-selling opportunities in that customer set. So, we think this portfolio is important.

MARK MOSKOWITZ:

And then, Brian, can you give us some line-of-sight in terms of the incremental R&D investments required going forward. Should we think about R&D growth being in the mid-teens year over year for the next couple of quarters, or is there going to be an inflection point soon?

BRIAN GLADDEN:

No, it’s going to continue to be a place where you’ll see growth, especially around these enterprise businesses. Much of what we’ve done is incrementally invest in R&D in acquired assets and building out the intellectual property that we’ve acquired. So, that’s going to continue to be very important. As a company we’re running at 1.8 percent of revenue now, significantly up from where we were even a year ago. So, it’s an important trend that will continue for us, where we’ll be increasing R&D.

MARK MOSKOWITZ:

Okay, thank you.
OPERATOR: Your next question will come from the line of Keith Bachman with Bank of Montreal.

KEITH BACHMAN: Hi, my first question is on services the support business is growing nicely due to better attach, yet if I look at infrastructure applications and BPO, it seems that that business is growing well below market growth rates. So, I was wondering why and what's the action plan to improve growth in those areas. And I have a follow-up, please.

BRIAN GLADDEN: Yes, Keith, I mean, you've seen as we've talked about over the last few quarters pretty strong growth in terms of new signings. And much of that is around IT outsourcing in apps and BPO. What's going on in the business is we are intentionally pruning some legacy accounts that from our standpoint aren't necessarily long-term strategic accounts for us. That has improved profitability significantly. It's been very conscious and thoughtful. And I think you'll see as those new signings begin to kick in over the next few quarters here that those businesses will begin to show some nice growth.

MICHAEL DELL: That's led, by the way, to six consecutive quarters of increasing margins.

BRIAN GLADDEN: Yes, it's helping services margins overall, too.

KEITH BACHMAN: Then my follow-up I want to stay with this subject, if I can, is, Brian, could you give a little more color on what the growth trajectory here in this business is and within that context you've been acquiring a good deal of IP on transaction-related businesses. Is there a thought here to investing more in this business, as well, including non-organic sources?

BRIAN GLADDEN: Yes, I think we've been, obviously, as we've built out and built around the Perot platform, we've added some things to that portfolio that are executing well, SecureWorks is a great security services business that's been growing very, very well. And has been a great acquisition. We've added some new intellectual property around application modernization this year with Make and Clerity. So, I think you'll see us trying to focus on differentiated IP that we can add to the services portfolio and grow higher margin parts of that business.

ROB WILLIAMS: Yes, and Keith, whether it's in infrastructure or cloud security or apps and BPO, the team at Dell services is really focused on next-gen services solutions, fill in the blank as a service as an example. And so as a result of that they are continuing to fine tune the model to make sure that they've got the right cost structure in place, and the right people and tools and technologies in place. And so they're very comfortable with where they're positioned right now and feel very comfortable with their pipeline. They're just doing some things that they
feel are the right -- absolutely the right strategy on a go-forward basis. And it's showing up in the P&L, not necessarily at the revenue line right now.

KEITH BACHMAN: How long does it take to filter out the deals though, Brian, I didn't hear that part? Is it another one, two quarters, three quarters?

BRIAN GLADDEN: I think they'll continue to do it. You'll start to see the benefit of some of the signings kind of rolling into the business as you get through next year, probably the middle of next year.

KEITH BACHMAN: Okay.

ROB WILLIAMS: They're being a bit more careful about how they start to bring those signings on. And so, again, you've got a good consistent level of signings on a trailing 12 month basis that's been consistently just below $2 billion. That should begin to filter into the business.

KEITH BACHMAN: Thanks, guys.

STEVE FELICE: I might have a comment related to some customer feedback. The silver lining in a bad economic situation has everybody really examine their cost structures, and I feel like we're hitting an inflection point where you hear CIOs, and I've heard many of them specifically say, I've got to get off of my proprietary environment, I've got to get off the mainframe. These are comments we never used to hear. And we're so well positioned without having a legacy profit stream from those proprietary environments to meet the needs of customers wanting to move, and that's why we're getting apps modernization capabilities so we can help drive that transition.

OPERATOR: Your next question will come from the line of Peter Misek with Jefferies.

PETER MISEK: Thanks, gentlemen. You exuded a lot of confidence in your commentary that this current downturn is more of a short-term downturn. Can you give us any data points post the October close or any comfort or color that this is short-term, that this isn't a longer-term malaise? We have a double-dip recession in Europe. We have a bit of a mess politically in Congress right now. Any kind of dynamics would be great in terms of that, and I have a quick follow-up?

BRIAN GLADDEN: Can't really give you any fourth quarter color, but some of the things we've talked about clearly, and we're really talking about the client business, you see what's happened with the inventory dynamics, you see what's happened here with the Windows 8 operating system transition, those are clearly impacts that we would see working their way through the system over the next quarter or so.
So, don't expect a lot of improvement in macro economy, and probably don't expect a lot of the fundamental PC demand dynamics to improve over the next quarter, but that element will work its way through.

**PETER MISEK:**

And you mentioned in your commentary as well, as you look at the macro environment, what understand a little bit in terms of component strategies, managing inventory, can you give us any color on how we're looking in terms of -- we know what the channel inventory is, you've enunciated that. Any ability to give us some detail on what Dell's raw material or purchase commitment inventory looks like, not necessarily on the PC side, but more in terms of some of the other hardware? There seems to be some nice component pricing that's coming down, and wondering if Dell has been able to take advantage of that? Thanks.

**BRIAN GLADDEN:**

I think it's one of the strengths of our efficient supply chain and short cycle times is getting access to those opportunities. We've done a good job with that. You've seen over the last quarter at least that we've taken inventory levels down. So, we think that gives us a chance to take advantage of those opportunities and we've done some of that.

**ROB WILLIAMS:**

Thanks, Peter.

And let's take one more question, Regina.

**OPERATOR:**

The final question will come from the lines of Kulbinder Garcha with Credit Suisse.

**KULBINDER GARCHA:**

Thanks for letting me on the call. Brian, question for you. Just on the cost base really with margins having gradually come down for multiple quarters now at the gross and I guess operating level, is there anything more radical that you guys have considered, are there any disposals you can do small or large, or just taking more of a stringent view of the cost base if this is a prolonged downturn, and what this sustainable pressure on margins in the client business says you have to be more actioned going forward; is that under consideration or is it just a billion dollars in the client business you've mentioned so far?

**BRIAN GLADDEN:**

No, look, I think we're doing a couple of things. I mean, clearly we've managed discretionary spending with a specific focus on G&A over the last several quarters here. And if you look at the OPEX trend that we've had this year, it's been fairly well-managed as in many cases we've added a lot of investment in the key priority areas for the business. So, that will continue. We just think that's clearly something we have to do in this environment, and the right thing to do.
Jeff Clarke this summer talked about a broader $2 billion initiative, a billion of that is in the client space, some of that will be in COGS, some of it will be in OPEX. And then there’s another billion that we’re going after in other parts of the business. So, those are broad initiatives that affect the underlying structure of the business, and allow us to drive efficiency and productivity across the business.

You’ll see that sort of play out over the next couple of years, and we’ll talk more about that as it sort of works its way through the system.

KULBINDER GARCHA: Just to be clear, Brian, none of this $2 billion potential in savings, however it might come into the P&L has really benefited you guys yet; is that correct?

BRIAN GLADDEN: That’s generally right. I mean, we’ve started some of the activities, but it’s been more aggressive management of discretionary spending in the short-term.

KULBINDER GARCHA: Okay. Thank you.

OPERATOR: I’ll now turn the call over to Mr. Williams for closing remarks.

ROB WILLIAMS: No closing remarks.

Thanks a lot and we look forward to chatting with you.

OPERATOR: This concludes today’s conference all. We appreciate your participation. You may disconnect at this time.

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