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

This broadcast is the copyrighted property of Dell Inc. Any rebroadcast of this information in whole or part without the prior written permission of Dell Inc. is prohibited.

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.

Thanks, Regina.

In light of Michael's involvement in the pending transaction, today’s call will be led by Brian Gladden, and he’ll be joined by Tom Sweet, our Corporate Controller.

The web deck was posted to our website in advance of the call. I encourage you to review this and related 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. Actual 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.
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.

Also note that unless otherwise mentioned, all growth percentages refer to year-over-year.

As you know, the Board of Directors of Dell, acting on the recommendation of the special committee of independent directors unanimously approved a merger agreement to take the company private subject to a number of conditions.

Given the nature of this transaction, we’re not going to address any questions on this matter in today’s Q&A.

Now I would like to turn it over to Brian.

**BRIAN GLADDEN:**

Thanks, Rob.

For the full fiscal year our revenue was $56.9 billion, down 8 percent. Full year non-GAAP EPS was $1.72, down 19 percent. Our Enterprise Solutions and Services Business was $9.4 billion, up 4 percent from Fiscal Year 2012.

For the fourth quarter, we delivered revenue of $14.3 billion, down 11 percent, and up 4 percent sequentially, which was at the high end of the 2 to 5 percent sequential growth outlook we provided last quarter. The ES&S business was up 6 percent to $5.2 billion, and now represents 36 percent of our revenue, and well over half of our gross margin dollars.

We continue to execute on our long-term strategy. Our strong balance sheet and cash position have enabled almost $5 billion in investments in new capabilities, and intellectual property in key assets such as Quest, SonicWALL, Wyse, and AppAssure.

I’ll refer to non-GAAP financial measures going forward. Our gross margin was 22.8 percent, and included an approximately $250 million benefit primarily related to vendor settlements. We experienced a competitive pricing environment in our desktop and mobility products, and utilized a portion of the settlement dollars to fund investments in some customer accounts that we feel will drive solid cash flow and profitability over the long-term.
In addition, we did see some areas of elasticity, and we were able to hold or gain share in certain areas of the business. SG&A increased 40 bases points sequentially to 14 percent of revenue while R&D was up sequentially to 2.1 percent of revenue. The dollar increase in SG&A was driven by recently closed acquisitions, strategic investments in sales capabilities, and expenses related to the merger transaction. The R&D increase was driven by recent acquisitions in software, predominantly the Quest business.

Operating income was $954 million, or 6.7 percent of revenue. Earnings per share were 40 cents, which declined 22 percent. We generated cash flow from operations of $1.4 billion, partially driven by the sequential growth in our business and an improved payable cycle. Our cash and investments balance ended at $15.3 billion.

For the full year, we've returned 34 percent of our free cash flow to shareholders in the form of our dividend and stock repurchase at the high end of our stated range of 20 to 35 percent.

Turning to our lines of business, our server and networking business grew 18 percent, representing the 13th consecutive quarter of growth. As a reminder, this business includes Dell software related to Quest, AppAssure and SonicWALL. Servers increased 5 percent driven by strong growth in our Hyper Scale Data Center Solutions Business, as we see continued strong migration to our 12th Generation servers. 12th Generation servers now represent almost 80 percent of our Dell PowerEdge Server revenue at ASPs and margins that are a premium to our previous generation servers.

Our networking business continues to deliver strong growth with an increase of 42 percent, and over 100 percent growth in our Force 10 business. Dell storage was down 8 percent to $424 million, but we’re seeing improved momentum as the business increased 12 percent sequentially driven by a 20 percent sequential increase of Compellent and EqualLogic combined.

The services business was down 3 percent and flat sequentially at $2.1 billion. Support and deployment was flat. Infrastructure, cloud and security services were up 2 percent led by our security business which increased 17 percent. We had a 22 percent decline in our apps and BPO business driven by select contract expirations.

Our services backlog and deferred services revenue increased 3 percent to $16.3 billion. New services signings increased 9 percent to 2.1 billion on a trailing 12-month basis. Our third party software and peripherals revenue was down 11 percent,
driven by a continued decline in desktop and mobility related products, and a contraction in our imaging business. We saw good results in our Dell software business, led by Quest, which delivered revenue over our stated target of $180 to $200 million for the quarter. We also saw good sequential growth in our security software business and continue to add customer-centric software solutions to address critical customer needs.

Our desktop and mobility business was down 20 percent and up 3 percent sequentially. Our desktop business gained sequential share, while notebooks lost share and continued to be challenged. We made the decision to improve our relative price position and we believe this will benefit us going forward. We expect the market competitiveness and margin pressure to continue, which reinforces the importance of executing on our greater than $1 billion cost-out initiatives, specific to this business.

Clearly, understanding the dynamics of the desktop and mobility environment, we continue to innovate and emphasize alternative compute models as evidenced by continued strength in our Wyse business. In the fourth quarter we saw orders in this business increase over 25 percent, including tied enterprise solutions.

Turning to our business unit results, I would remind you that these numbers are not adjusted for the benefit of the vendor settlements. Large enterprise revenue was down 7 percent to $4.7 billion. ES&S grew 10 percent, including 25 percent growth in servers and networking. Operating income was up 60 basis points sequentially to 8.4 percent of revenue.

Our public business was down 9 percent to 3.5 billion. We continue to see a challenging spending environment in the U.S. federal business as the budgetary uncertainty has impacted IT spend and delayed contract awards. Overall the public business saw good growth in servers and networking at 11 percent growth. The decline in revenue, combined with higher OPEX resulted in OPINC of 6.8 percent, which is down 130 basis points annually and 240 basis points sequentially.

Given the budgetary issues in many of these customer sets there are fewer desktop and mobility deals and those that were awarded were typically very competitive. SMB revenue declined 5 percent to 3.4 billion. Similar to large enterprise, we saw strong ES&S growth of 9 percent including 17 percent growth in services and 13 percent in servers and networking. Operating income was up 70 basis points sequentially to 11.3 percent of revenue. ES&S revenue mix of 39 percent has improved for seven consecutive quarters in SMB.
The consumer business continues to be challenging, with revenue down 24 percent. Operating income was $8 million or 0.3 percent of revenue. Growth in this space continues to occur in tablets, and in the low value desktop and notebook space.

We're seeing good adoption of touch and the supply of touch panels improved throughout the quarter. Given our pending merger agreement we're not providing an outlook for Fiscal Year 2014, or our first quarter.

Finally, I want to remind you that the 8-K that we filed January the 10th, we're going to replace our customer segment reporting structure with a product and services group based structure for our first quarter of Fiscal Year 2014. The new reporting groups will be as follows: End User Computing, which will include desktops, including thin client, notebooks including tablets, third party software, and client related accessories, enterprise solutions group, which will include servers, networking, storage, converged infrastructure offerings, and ESG-related accessories; Dell Services, which will include a broad range of IT and business services, including support and deployment services, infrastructure, cloud, security services, applications, and business process services; and the Dell Software Group, which will include systems management, security software solutions, and information management.

We will restate segment reporting for comparability purposes for Fiscal Year '12 and Fiscal Year '13, at the time of our first quarter earnings release. This aligns with how we deliver our strategy and is a natural step for better solutions for our customers.

Now, I'll turn it back over to Rob.

ROB WILLIAMS:
Thanks, Brian. For those of you in the queue, please limit your questions to one with no follow-ups. Regina, can we go ahead and 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.

Our first question will come from the line of Shannon Cross with Cross Research.

SHANNON CROSS:
Thank you very much. Brian, I just had a question on the vendor settlements, $250 million is a pretty significant amount. Was that one vendor, or multiple and then also if you think
about the reinvestment you did was that part of sort of the pricing you talked about on the PC side?

**BRIAN GLADDEN:** Yes, it was a series of settlements that made up that amount in the quarter. And really the way we thought about it, we had visibility to the settlement early in the quarter and we were able to use that to selectively get more aggressive in pricing in some parts of the business. That’s sort of how we thought about it in the quarter.

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

**TONI SACCONAGHI:** Yes, thank you. You talked about the $1 billion, about the incremental price aggression that you had begun in the quarter. And I’m wondering if you could provide some color on when that was taken and how significant. And related to that you talked about the imperative to really get the $1 billion in cost outs in the client business. Maybe you could help us understand where you are in that process, how much do you think you’ve taken out and how investors should think about that?

**BRIAN GLADDEN:** Like I said, Toni, early in the quarter we had visibility to the settlement, the multiple settlements in the quarter and we really did thoughtfully think about where we wanted to apply that in some markets. And throughout the quarter continued to test elasticity, places where we fund elasticity and good long-term profitability in accounts, that’s where we would have gotten more aggressive. And we did that primarily in the commercial business, really, throughout the quarter.

Regarding the billion, it’s really part of what Jeff Clarke had talked about last year in the June analyst meeting. I would say as we’ve consistently talked about on this it’s a long-term program. This is something we’ve talked about relative to three years, as you look at Fiscal Year ‘14. We will begin to ramp some of those benefits, I would say, early on. Much of that will be in COGS. And as you get later into the program there will be more opportunities around OPEX, but clearly around three years and ramping throughout that period.

**OPERATOR:** Our next question will come from the line of Brian Alexander with Raymond James.

**BRIAN ALEXANDER:** Thanks. Brian, just to follow up on the pricing, could you be maybe a little more specific about which parts of the business you got more aggressive, and where you think you gained share by customer segment, by region, or maybe by vertical. And more importantly, do you view this as a lasting change in Dell’s pricing philosophy in the client business, or should we view it
as more temporary given the vendor settlement benefit that you had visibility into? Thanks.

BRIAN GLADDEN: Brian, we said it last quarter and I think we've talked about it for really a couple of quarters. We looked at the markets and clearly there were places that we needed to get more aggressive. I think this gave us an opportunity to do that. I think we did capture some business and some of those are larger, kind of long-term relationships that we think will pay off for us in terms of profitability and revenue growth going forward.

I'm not going to be specific around where we did that. But, clearly our focus has been on commercial and really across the board in the commercial business and specifically around client, obviously, has been our focus. So, I think it's going to continue to be a competitive market. No question, and I think part of what we had to do was get ourselves in the right price position in some of these segments.

OPERATOR: Our next question will come from the line of Keith Bachman with Bank of Montreal.

KEITH BACHMAN: Hi, could you talk a little bit about federal? The margin there was down quite a bit and you mentioned the volumes were weak. Is that to suggest that the federal business will remain at these margin levels, given all the noise coming out of the various sectors there and was it -- I think you mentioned PCs, or clients, excuse me, was that where the most change was, or across the board? Thanks.

BRIAN GLADDEN: Yes, I think it is, Keith, it's going to be challenging. I don't think this is on the very, very low end of profitability we've seen in this business. I think what you'll see, I mean, we've see good progress in that business around enterprise. And there continues to be a good pipeline. And remember, it's not just federal, this is a broad public business that has exposure to healthcare and education, and a broader global exposure to government.

But I think you'll see us continue to work to grow the enterprise mix in this business, and that's our focus to really improve profitability here. But I do expect as you see the government spending continue to be somewhat constrained that this will still be a challenging business for us.

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

KATY HUBERTY: Thanks. Good afternoon. Just curious whether you think the elasticity that you saw in the PC business and the linearity in
the quarter give you any confidence that enterprise IT budgets are stabilizing?

**BRIAN GLADDEN:** Yes, Katy. I would say we've talked about the Windows 7 refresh, and the fact that all the data that we've seen, all the conversations we've had with customers would lead us to believe that there's still a significant refresh activity that has to happen in the next 12 to 14 months. Customer conversations would reinforce that.

I would say, as we sort of looked at the back half of the quarter, I think we got a little bit more comfortable with overall corporate IT spending. And would hope that as we head into the year that IT spending will be a bit stronger in this fiscal year than what we saw last year. And I think that's a broad comment across the portfolio, the data center as well as the client environment. But, clearly, we are still of the belief that there is a broad Windows 7-based refresh that will continue to play out as we move towards April of 2014 with the transition with Microsoft.

**OPERATOR:** Our next question will come form the line of Steve Milunovich with UBS.

**STEVE MILUNOVICH:** Thank you. Your growth businesses aren't growing. They were down 11 percent. Could you comment on what's causing that? Is that mostly PC-based and specifically China was down again, do you expect a reversal there?

**BRIAN GLADDEN:** Yes, Steve. You know, I think when you look at them individually, and I talk about China, India, Brazil, you know, China I would say has begun to stabilize, and we've seen the market improve over the last three to four months. There's still, I would say not what we've seen over the last couple of years in China, but it's picking up and we would expect to see growth as we head into Fiscal Year '14 out of China.

I think Brazil, India on the other hand have been tougher, and I think the currency situation there has really compressed both of those markets, and I think they were significantly down. China on the other hand was closer to flattish.

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

**MAYNARD UM:** Thanks. I have a question around the elasticity benefit. If I take out the $250 million out of the product margins, the product gross margins dropped about 16-1/2 percent. They were about a little over 17 percent last quarter. So, while it may have been revenue accretive, it looks like it was gross profit dilutive, or maybe neutral at best. Can you just talk about the strategy of revenue versus profits, or maybe how
much of the aggressive pricing is a function of having to maintain your unit volumes to keep the supply chain scale benefit? Because it definitely sounds like we should maybe expect this level of gross margin going forward because of the competitive environment. Thanks.

BRIAN GLADDEN: Yes, Maynard, I think it's clearly, like I said, last quarter we talked about where we were in terms of price position and expected to get more aggressive as we sort of headed into the quarter. The settlement allowed us to do that. I think it is a bit of recognizing we need to keep this business at price position, we need to scale it appropriately to ensure that we have the right cost position, and making some of that tradeoff.

I would say that on a gross margin basis clearly was dilutive excluding the benefit of the settlement in the quarter. And we look at these accounts that we were engaged with where we actually were able to win business, and see them as long-term opportunities for the company, and see revenue growth as well as margin coming really outside of the quarter. And I think that's the way we've thought about it. This is a bit of an investment in the business to ensure we're in the appropriate price position to grow and maintain our cost position. No question.

OPERATOR: Our next question will come from the line of Aaron Rakers with Stiefeil Nicolaus.

AARON RAKERS: Thanks for taking the question. I just want to build on that. Brian, I think at the Analyst Day Event back in June, you talked about some scenarios on the PC business, or End Compute Division, and stress testing that comfort level and maintaining a plus 5 percent op margin in that business. Can you just update us where you stand? Do you still think that's an attainable target? And if so, is that a function of some of the cost savings that you're trying to drive out of the model, or something more?

BRIAN GLADDEN: I think that is not something that we would intend to provide updates on on a quarterly basis. As you know, Aaron, we don't really even track the business that way. And we've given you visibility and transparency to those results on some regular basis. I guess what I would suggest is, as we head into the first quarter results, and begin to report the business on a product basis, segment basis, you'll get a lot more visibility to that.

I think that business for us continues to be an important element of the portfolio. We think we can drive solid profitability, and strong cash flow from the client business. As you know, it pulls through lots of other elements of the portfolio, and that's an important part of our business model.
OPERATOR: Our next question will come from the line of Jayson Noland with Robert Baird.

JAYSON NOLAND: Great. Thank you. Brian, just to clarify, you referenced April of 2014, I think that was an XP end of life statement. What percentage of the install base for Dell today is XP?

BRIAN GLADDEN: I think that's really tough to get at, Jayson, but the data that we've seen would suggest there's still somewhere in the range of 40 percent of the corporate install base for PCs that is XP or Vista that needs to be upgraded. So, that's I think pretty consistent with the data that we see for our install base, and for what we hear from our corporate customers.

OPERATOR: Our next question will come from the line of Brian Marshall with ISI Group.

BRIAN MARSHALL: Great. Thanks. Your server networking business obviously up almost 20 percent year over year and doing well, and you highlighted Hyper Scale Data Centers as one of the key drivers of that. But one of the world's largest consumer Internet companies has recently talked about building a third data center in Sweden based on 100 percent non-OEM servers. So, I guess the question is how do you feel like you're going to be positioned going forward if we do see more of this white box market start to emerge in some of the biggest service providers out there?

BRIAN GLADDEN: Brian, it's not a new dynamic. This is something that we've seen for the last few years. It is relatively isolated to a few number of large scale customers who and make the economics work. And given that, we're still seeing strong growth in our business, and significant opportunities to continue to grow the Hyper Scale business. And I don't think it's a new dynamic. I think it's one that we've seen, and the differentiation that we've shown in the 12G products actually is showing very well, and helped us to gain share, continue to gain share in servers.

TOM SWEET: Brian, it's Tom Sweet. The other thing I would add is that there is a push on certain hyper scale people to provide their own boxes, but the benefit that we drive is around the engineering and logistics and some of the other service capabilities that come along with our suite of solutions.

OPERATOR: Our next question will come from the line Amit Daryanani with RBC Capital Markets.

AMIT DARYANANI: Hi. I just have a question on the services side, it looks like revenues were down about 3 percent year over year. Shouldn't we just talk about what was driving that, and also to the extent you can talk about services revenues, they were client-
centric and how did that perform versus the non-client-centric services revenues? That would be helpful. Thank you.

**BRIAN GLADDEN:**

Yes, the services business in general, I would say from our standpoint, the apps and BPO space is a place that we’ve been continuing to really exit legacy contracts and focus and improve business profitability. That’s continued and you see that in the results in the quarter. We’ve seen good growth in the security element of infrastructure cloud and security, with security and that’s really the SecureWorks business driving 17 percent growth in the quarter.

Support and deployment I would say, again, that is obviously going to feel the impact of the unit declines that we’re seeing on the client business, to keep that business flat, obviously, it’s taken some good work from the teams around attach rates, around pricing, and I think we’d continue to see very favorable performances, especially on the enterprise-type services side.

So, clearly in a flat number there we would have seen the client side of support and deployment down. And we saw significantly better enterprise growth, as we implement a lot of the support capabilities around some of the acquired enterprise hardware capabilities in the business. So, that’s really how it’s playing out. I would say, we feel pretty good about the progress in the apps BPO infrastructure side of the business, in terms of improving profitability. And I think we’ll continue to see progress with that as we move into the early part of the year.

**TOM SWEET:**

I’d also point out that the deferred services revenue balance on the balance sheet grew 3 percent and further evidence of sort of that long-term annuity that’s building on the balance sheet, given the good work that the teams have done around attach rate.

**BRIAN GLADDEN:**

Yes.

**OPERATOR:**

Our final question will come from the line of Brian White with Topeka.

**BRIAN WHITE:**

Yes, I’m wondering, Brian, if you could talk a little bit about the trends you saw in Europe in the quarter and what you see looking forward?

**BRIAN GLADDEN:**

Yes, you know, Europe has, I would say, over the last couple of quarters, been relatively stable at a relatively low level. So, you look at the declines we saw in the fourth quarter, pretty similar to what we saw in the second and third quarter in Europe. So, stabilized at a relatively low level. Still some good progress around the enterprise side of our business in Europe and saw some good growth there, clearly better in
Eastern Europe than Western Europe. But, I think we're sort of bracing for a similar environment in Europe, as we sort of move forward. I don't see anything that's going to make that a whole lot different, as we move into Fiscal Year '14.

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

- E N D -