

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **DELL - Dell Inc. at Sanford C. Bernstein & Co. Strategic Decisions Conference**

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## CORPORATE PARTICIPANTS

### **Toni Sacconaghi**

*Sanford C. Bernstein & Co. Inc. - Analyst*

### **Michael Dell**

*Dell Inc. - Chairman, CEO*

## PRESENTATION

**Toni Sacconaghi** - *Sanford C. Bernstein & Co. Inc. - Analyst*

Hello, everyone, and welcome. I'm Toni Sacconaghi, Bernstein's IT hardware analyst. We are delighted to have Michael Dell, Chairman and CEO of Dell, join us today. As most of you probably know, Michael founded Dell in 1984 from his dorm room, and the Company grew rapidly to become the largest PC vendor in the world in 2003 to 2006. While Dell has seen mixed financial performance in recent years, the Company has seen a material improvement in both its financial results and its operating results over the last several quarters. Dell's stock has outperformed the S&P 500 by over 1000 basis points year-to-date.

The Company has benefited from a corporate upgrade cycle, improving operations and favorable pricing and commodity environments. Following the stock's strong performance, investors have several important questions on their mind, including, one, does Dell have the breadth of capability and experience to compete versus large competitors in enterprise accounts beyond PCs? Two, how much of Dell's recent margin improvement is structural versus commodity price driven? Three, how should investors think about PCs going forward in light of the emergence of tablets?

Hopefully, to address these issues, I'm pleased to introduce with much gratitude Michael Dell. He has been terrific in offering to do a fireside chat and to take questions that you may have. So welcome again, Michael.

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**Michael Dell** - *Dell Inc. - Chairman, CEO*

Thank you. Good to be back.

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**Toni Sacconaghi** - *Sanford C. Bernstein & Co. Inc. - Analyst*

Maybe we'll start broadly and you can perhaps paint a vision of what you think Dell might be like three or five years from now. How might it be different in size, its businesses, its margin profile?

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**Michael Dell** - *Dell Inc. - Chairman, CEO*

You said appropriately that we are undergoing a series of changes and transformations in the Company. Clearly, what we see is an opportunity to drive the business around solutions and services and with a much higher ingredient of intellectual property. What we're finding is that, as we change the conversation with our customers who really understand the actual problem that they are trying to solve as opposed to trying to sell them an ingredient, we are opening ourselves up to all sorts of new opportunities.

What I also see is that if one takes a look at this commercial IP market and you have the large global companies, you have let's say large-size organizations, small and medium, there is really a tremendous opportunity in let's call it the smaller-large companies and the medium-sized companies all the way to small business that is not the exclusive domain or really the focus area of some of the more traditional IT companies in the universe.

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Not only is this space that I'm articulating a larger space, but it's I daresay a little bit less competed. So Dell tends to provide products and services across a broad range of customers, but that's really an area where you look at our acquisitions in the last few years, they have really been targeted with those customers in mind as kind of the design point. We have been able to sell them to the largest companies in the world and the smallest companies but this midmarket, if you will, is really a sweet spot for Dell not only in terms of growth and profitability.

So getting to your question, I think we can continue to change the profile of the Company in terms of margins, operating profit, and we are on a pretty good path to do that. It's going to take continual organic and inorganic investment, but we're making some nice progress.

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

If we were to try and operationalize that directionally, the Company has had historically relatively low R&D, like 1%, 1.2%. You talked about building IP, etc. Is Dell five years from now very different on that dimension? Do we have a company that's spending 2%-plus of its revenues on R&D and a Company that had structurally a better margin profile? So historically you were 18.5% gross margin, and now you've been doing better recently. Do we think of a company that has a different financial profile where we should be thinking about higher gross margins, 20%-plus and R&D levels that are maybe 2% as a percentage of revenue and OpEx that is commensurately higher as well? Because those -- the kinds of opportunities I think you are alluding to generally have a different kind of income statement profile. So how do you think about that?

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**Michael Dell** - Dell Inc. - Chairman, CEO

Yes, I think averages are really dangerous. I think certainly when you take revenues the size of Dell and you say is it 1% or 2% R&D, I'm not really sure it tells you a whole lot. If you look at the new areas that we have acquired or growing faster than Dell, they have much, much different gross margin and expense and R&D and operating margin profiles. We are investing heavily in those.

So if you look at storage, where we own our own IP now across the board from Fibre Channel to iSCSI to de-duplication, compression, NAS, you're in the teens type of R&D profile. Gross margins are certainly at or in many cases above what some of the competitive benchmarks are. So we'll invest heavily there. At the same time, we may be finding ways to invest a little less where there isn't return. So, I'm not sure the average really tells you a whole lot. If

I had to guess, it would go up pretty considerably. But we're not really managing to an average. We're sort of looking at it product and service at a time and saying what is the appropriate amount to invest to get the growth and return there? I think the result is a continuing stream of higher earnings and profit.

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

What do you think are your biggest capability gaps in kind of rounding out that enterprise solution vision that you talked about?

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**Michael Dell** - Dell Inc. - Chairman, CEO

So you want me to tell you what we're going to buy next?

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

No, where you're investing most and how you're thinking about where you are strong and where you'd like to be stronger.

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**Michael Dell** - Dell Inc. - Chairman, CEO

So you want me to tell you what we are going to buy next. I'm not going to tell you that. What I will tell you is that we certainly prefer things that are one click away instead of two clicks away or three clicks away. I think we clearly have a strength in infrastructure, and strong in servers and strong in storage. We are certainly continuing to build that whole infrastructure portfolio in systems management, and how do you build a more integrated offering. Although we don't see the market kind of wanting to buy everything from one provider, I'm sure we'll get to that question, I think there are some interesting verticals where as we change our sales motion to be much more solution-oriented, we are finding that vertical capability is incredibly valuable, whether it's in financial services or manufacturing, or healthcare, retail. In some cases, we have strong capability, like in healthcare. In another cases we'd like to add more. Some of that can be done organically; some can be done with partnerships and some certainly through acquisitions. We prefer the more ingredient type acquisitions where we can use our customer relationships and scale to capture leverage from those.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

If you think about your portfolio, one area where you haven't talked a lot about you have some capability but you have been talking more about recently is networking. Has your thinking in terms -- what is your thinking in terms of networking as a core part of the enterprise solution? I think historically you would say -- you would have said that historically we don't view that as a key ingredient. Recently, you've been talking more about your own networking capabilities. You've actually talked about --

**Michael Dell** - Dell Inc. - Chairman, CEO

PowerConnect business has been growing very nicely with attractive margins and that's a business we've developed largely organically. We have some partners there as well, but the organic portion has attractive margins and it's an area where we are investing pretty heavily in.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Because relative to I'd say one or two years ago, the areas where I've heard Dell talk most about opportunity and focus is through extending services capability, particularly in verticals and potentially even with offshore capabilities and also networking. So you talked a little bit of networking. Maybe you can also elaborate on comments that you guys have made recently. We hosted a call with Steve a few months ago, I think on your recent earnings call, and Brian had mentioned that looking for services capability in verticals, there's something that's important and also thinking about offshore capability. Can you make any comments on those things?

**Michael Dell** - Dell Inc. - Chairman, CEO

I'm not sure I'd add a whole lot to that. I mean I agree with those comments. I think in services, we're -- we have a support services business that's very, very profitable. We continue to grow it as we grow the product business. We are very focused on how do we grow the best cost portion of the services portfolio. We just hired a key executive, the Co-CEO from Wipro, to run most of our Indian operations. We think there's a lot of opportunity there.

Again, we are finding, as we add incremental resources into the specialist sales or service capability, a fair amount of leverage with those. So one of our businesses hired a relatively modest number of networking specialists about a year ago and found great success in organic growth of our PowerConnect product line. So now we sort of look across the entire business and say, well, what's the real capacity to do that? How many of these folks do we need? How do we go train them up? How do we build networking [universally] and internally so we create more than -- and the thing same would be true in storage and in

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next-generation data center and end-user computing and security. So each of these areas we are looking to say what's the opportunity to grow them. They tend to have higher margins than the kind of prior business.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

If you -- if we think about your Services business in total, historically you were largely a product support business, very high margins, annuity-like. You purchased Perot, which is principally an outsourcing company, and so you have a strong kind of core platform in outsourcing. You have a modest sort of traditional consulting business per se. You articulated a model here where it sounds like you're using selling specialists almost as a consulting sales force.

Is traditional consulting services to be able to provide that solutions capability something that's important for Dell longer-term, or do you envision not really having that need and building better specialist sales capability as you just talked about? Historically, any time we had a services conversation, you were reticent about building businesses or entering businesses that had a lot of (inaudible). You always have espoused a belief that you wanted to attack services in a technology-heavy people-light way. So I understand that philosophy.

But if we think about kind of the breadth of services offerings and full solutions providers usually have some support capability, they usually have outsourcing, they usually have broad consulting capabilities. Is that something that you think is a necessary ingredient to your fulfilling that desire to be a solutions player in that midmarket space that you articulated?

**Michael Dell** - Dell Inc. - Chairman, CEO

I think you need some of it. You don't have to have an enormous quantity of it, but a little bit goes a long way. There are a number of projects where the consulting capability is actually -- well, where it usually starts is a whiteboarding session where you identify the opportunity. Then you're given a consulting assignment where the solution is really architected and mapped out, and then you go implement it like to earn money all across the way. But if you couldn't do the original assignment, you wouldn't actually have an opportunity to provide the infrastructure that kind of went with the solution.

So we don't necessarily have to have number one [fear] in doing those consulting assignments, but you have to be capable enough. So, for example, today, I visited with a customer who most people would consider them a -- let's say on the smaller end of large companies, a \$5 billion company, a pretty good sized company. There's a lot to do in their data center. Before any of it's going to get done, it has to be designed and scoped out and planned and scheduled. We have the capability to go do that and having sort of credibility and authority to go do that is sort of the ticket to play in that space.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Is that something that you feel is a -- it needs to be a Dell owned capability, or do you feel like (multiple speakers) --

**Michael Dell** - Dell Inc. - Chairman, CEO

We're not talking about a lot of (multiple speakers) --

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

(multiple speakers) how do think about that? Because there are some firms that basically say we don't really do consulting. We have strong relationships with third-party consultants. We maintain an autonomy that way. So there are a lot of folks who do have consulting capability; there are others that rely more on partners. What's your philosophy on how you think about that?

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**Michael Dell** - Dell Inc. - Chairman, CEO

I think the type of projects that we are doing tend to be often closely associated with the infrastructure products. Those are not the types that are typically emphasized by let's say an Accenture. So we're finding good success in doing those ourselves. But as I said, it's not a significant number of people or resources, and we think it's a good part of the portfolio.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

If we continue to think about enterprise capability, how do we broadly think about cloud? I know that's a pretty nebulous term, but how do we think about that? Let me kind of put a contrarian perspective. On one hand you could say cloud is good, people are re-architecting their data centers; there's opportunity for Dell to sell services and products, servers and products around those servers. On the other hand, you hear about public cloud providers, whether they be Google or recently Facebook, and Zoosk kind of announcing the fact that Facebook is starting to buy servers and motherboards directly from the Zoosk and building their own servers.

If we play out a vision of cloud-based computing that has a high percentage or a more significant percentage of public clouds going forward, is that good for Dell's and server vendors' business? Arguably, those guys would wield great market power, and those big deals today don't really have great profit. They'd be most likely to potentially dis-intermediate server vendors and go directly to ODMs themselves.

So I guess maybe a two-part question on cloud. What is the risk that cloud is actually potentially (inaudible) [destroying] longer-term server vendors. And then maybe take the flipside and tell me why you might be excited about the opportunity.

**Michael Dell** - Dell Inc. - Chairman, CEO

I think there are all kinds of moving parts here. We are providing a lot of infrastructure to leading public cloud providers. We see the ones that provide let's say infrastructure as a service. As customers get larger, we are often seeing them move off of let's say getting Dell through a public cloud and they just get Dell through Dell. You know, some risk that some of the ODM suppliers provide to some of the larger ones. I don't know percentage of that, of the overall consumption that's likely to be. There are all kinds of difficulties and risks associated with doing that. As an end customer, you have to be willing to test and validate and take on a certain set of new requirements and liabilities and don't really see a lot of customers signing up for that.

So the server market continues to be a very broadly dispersed market where you have large numbers of end points where servers and storage infrastructure are deployed. I am not convinced you're going to see a rapid or dramatic change in that. We don't see it all going in one direction, because there are plenty of challenges around security and data protection that have to be dealt with that maybe aren't today served in what's known as the public cloud. Again, terms get used so much that they don't really mean a whole lot.

When you talk to most commercial customers, what they'll sort of tell you is I want a secure private cloud. Whether it's in their data center or our data center or somebody else's data center is sort of a function of a variety of variables. We don't really see a lot of large companies or even mid-sized companies going kind of wholesale to a public cloud environment. Not to say that there aren't applications or certain use cases where it may or may not make sense, but what percent of the servers being produced do you think go into a public cloud?

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Very low, less than 5% certainly, probably less than 3%. But arguably that could change, right? If it was 25 years from now, that could be significant.



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**Michael Dell** - Dell Inc. - Chairman, CEO

Yes, I think possible. You also see all sorts of new players emerging, and so the thing continues to sort of morph and emerge. If you go on a regional basis, they want to have their own stuff locally. New laws are being passed. Regulators are very concerned about data security, data protection. So it's certainly hard to predict exactly how it's going to evolve, but don't spend a lot of time worrying about that one.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

I'd like to talk a little bit about kind of the improvements that you've seen financially over the last four or five quarters. This is, as I'm sure you hear from investors, a really significant topic. So backdrop being your gross margins have improved about 600 basis points over the last four quarters. Historically, you were remarkably consistent in your gross margin. Even though your business was changing, you were becoming less dependent on PCs, your enterprise business was outstripping PCs. Your gross margins were almost incredibly consistent.

**Michael Dell** - Dell Inc. - Chairman, CEO

You know why that was? Because we price based on costs, which was not a good idea. It worked for a while. We grew to be a very large company by pricing based on costs, but that ultimately turned out to be not such a good idea as we started to have more and more differentiated products that keep going.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

So perhaps it starts to address the question, which is how do we think about this big change in gross margins that is historically unprecedented, certainly for you guys, I would argue even amongst PC vendors who have never seen this kind of gross margin change in this short a period. How do we think about that? Is it -- is this just a terrific cyclical period where pricing is pretty benign and components are really benign and you are capturing a lot of that? Is this a different philosophy in terms of price versus volume at Dell? Or is this a lot of improvements that you've made fundamentally at Dell? How do we think about that? Is something that's closer to 23% really a realistic gross margin for Dell on a go-forward basis?

**Michael Dell** - Dell Inc. - Chairman, CEO

I think there's clearly a lot of different things going on. If you look at the pure-play companies, if there are such things anymore, they have not experienced the same dramatic increase in gross margins. Certainly, if you look at the things that we've been doing, there are a large number of them and they're different things that we've done in the past.

So kind of start with how is the customer relationship changing? So we are changing the conversation to be much more about solutions and the real problem the customer is trying to solve as opposed to the box and the product. I mentioned this idea of moving from a cost-based pricing to value-based pricing. And so we literally took an entire sales force and said "I'm not going to tell you what the costs are anymore. Here's the price. Here's the discount authority."

Obviously a lot going on around mix in terms of how do you take the product and build services and products, other parts around it, it changed the conversation. So to give you an example, we had this great little company we bought called KACE, Systems Management. What we're finding is that where we take KACE and insert it into the PC refresh equation, we are much more able to move the conversation back to IT and away from procurement. If a PC refresh is sort of done by procurement, it's going to be a very cost-driven kind of exercise.

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No question we are prioritizing profit over units. We've said that very consistently. Certainly, if you look at -- there's -- if you look at some of the other firms out there, [there's] a lot of units, not a lot of profit. So we are doing a different thing, and as we change the offering to be more vertical, more solution, more systems management, more services, we are seeing certain a different profile of margin.

As we insert other solutions in the portfolio, whether it's in security or in storage, virtualization, that's changing the conversation of the customer. Let's face it, you want to buy some new PCs? The CIO doesn't really care. You want to deal with security or the next-generation of the data center? That's more on the CIO agenda. So we are starting the conversation in a different basis. If a customer wants to buy a lot of PCs and doesn't want to pay a lot for them, don't come to us. So we're just not doing that.

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Michael, if I take your recent -- so you didn't mention component costs or an industry price drop at all in your explanation for the margins. (multiple speakers)

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**Michael Dell** - Dell Inc. - Chairman, CEO

I'm sure there's some component costs and certainly I also didn't mention a lot of the structural improvements that we've made, which are very significant over the past several years. All of those together contributed. If you asked me to kind of parse how much is this and how much is that (multiple speakers) not really going to do that.

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

No, I know that's tough, but I think most investors think the 23% gross margin feels unrealistically high. (multiple speakers)

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**Michael Dell** - Dell Inc. - Chairman, CEO

(multiple speakers) the prior quarter's gross margins were (multiple speakers)

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

No, absolutely. But I guess the question --

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**Michael Dell** - Dell Inc. - Chairman, CEO

All you have to do is wait another quarter and you'll find out.

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Okay, fair enough.

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**Michael Dell** - Dell Inc. - Chairman, CEO

We only get to report every 90 days, guys. I mean that's --



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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

How far are you willing to go on that price volume trade-off? So can Michael Dell, the entrepreneur who ran one of the greatest growth companies of all time, be comfortable growing slower than the market if you continue to have very robust margins? Is Dell -- is that in Dell -- Dell the Company's DNA? Is that personally in your DNA, given the history that you've had with the Company? How far are you willing to make that price-volume trade-off in that kind of value-based pricing that you alluded to?

**Michael Dell** - Dell Inc. - Chairman, CEO

Well, margins going up is great, but if margins are going up and profit is going down, then we are failing. That's not part of the equation.

What we are looking at is the growth in operating income dollars and gross margin dollar growth, which is substantial, continues to be substantial; I expect it will continue to be. So that's kind of the -- so we're -- it's share of profits.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Okay. Your aspiration there is to grow faster than industry growth in process, or at some notional level? I mean you've talked about revenue growth and then wanting to grow operating profit dollars faster than that. Is that really the framework we should think about it, or do you think about growing faster than the industry, or do you think about growing a minimum of 8% or 10% operating margins? What's kind of the mental model that we should be thinking of as investors?

**Michael Dell** - Dell Inc. - Chairman, CEO

I'm not really here to change our guidance. What we said is that this year we expect our operating profits will grow 12% to 18%. That's -- it's early in the year. That's our story; we are sticking by it. So that operating profit is growing faster than revenue, and certainly that's a reasonably good rate of growth and profits. We are very much planting seeds that we believe will grow into large businesses for us. If you take a Compellent acquisition, businesses, a quarter after we bought it, about twice the size as the quarter before we bought it. So growing pretty fast and at high margin in a big space. You look at what we did with EqualLogic, I think that's a -- this is a space where we have a lot of permission to a play, very large footprint of servers, storage is growing very fast. So I think you'll see us very focused on continuing to drive growth in operating profits.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Maybe we can talk about PCs a little bit. Is -- are we in a post-PC era, and are we seeing the beginning of the death of the PC?

**Michael Dell** - Dell Inc. - Chairman, CEO

Here's a way to think about it. When you got your smart phone, did you get rid of your PC?

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

No.

**Michael Dell** - Dell Inc. - Chairman, CEO

Most -- (inaudible) no, you didn't get rid of your PC. Okay. When you got your tablet, did you get rid of your PC?

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

I have not, but if I look around the room and I see the number of tablets that are here, maybe these people haven't thrown them out (multiple speakers)

**Michael Dell** - Dell Inc. - Chairman, CEO

Well, let's ask them. Okay, you have a tablet. How many of you have a tablet and got rid of your PC? So we've got one, two, three, four, five, six?

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

I ask it in a different way?

**Michael Dell** - Dell Inc. - Chairman, CEO

Sure.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

How many of you have a tablet and will wait longer to replace your existing PC? Right? So if I think about that and my average replacement cycle on a (multiple speakers)

**Michael Dell** - Dell Inc. - Chairman, CEO

I've got another question. How many of your employers will buy you a smart phone, a tablet, and a PC? Okay. Those of you who have your hands up, how many of you work in organizations with more than 500 people? One, two, three, 3.5 maybe?

So this -- so I was at a bank earlier today, the biggest or one of the biggest, and meeting with the CIO and a bunch of the folks there. They're not going to buy three devices for every person.

You look at the tablet, you say, well, what is a tablet? What job does the tablet do that the Notebook didn't do? There are a lot of things there. One thing is that the tablet is much lighter, much better battery life; there's all these sort of things. The Notebook, it just screwed up. Notebook could have done such a better job.

So why did that happen? Well, power management, light weight. You can actually make a better Notebook that gets closer to the tablet. We're still going to do tablets, and tablets are a very viable form factor, but I think there are many ways to kind of learn from this in terms of how does the Notebook get better? Because let's say you had a tablet that also had a keyboard. Keyboards don't weigh very much, so that's pretty interesting.

So I think as ARM shows up on Android and Windows, in small low-power devices, I think you're going to have a pretty exciting environment here. But put it in perspective. We will ask the expert here. How many tablets do you think Apple will sell this year?

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Between 30 million and 40 million.

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**Michael Dell** - Dell Inc. - Chairman, CEO

Fine, whatever. So the installed base of PCs is 1.5 billion. Gartner says there will be 2 billion PCs in 2014, so 1.5 billion, 2 billion PCs, 30 million, 40 million tablets. I think it's important for us to put it in perspective, and also when you go into this kind of corporate environment and you say how many corporations are actually going to buy a third device for their employees? You've got a lot of rich people here in the audience who buy their own device, great, fantastic. Last night, we had a bunch of CIOs, some of them from some very expensive universities in the area. You ask the CIO what are kids bringing to school? Parents will buy the kid a smart phone, a Notebook, and a tablet to go to school. They'll buy them a smart phone and a PC. If they want to buy their own tablet, the kid's got to pay for it themselves.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

I guess I don't want to belabor the point and I'm going to get to these questions in rapid-fire succession, but if you were a consumer PC company, given that we had almost half the room saying that they would push out their replacement cycle in existing PCs, would you feel more threatened or worried about tablets? I realize consumer PCs are a small part of your business today, but is it largely this corporate distinction or do you think this is a skewed demographic given how many people said they were pushing out their PC purchases?

**Michael Dell** - Dell Inc. - Chairman, CEO

I'm taking it a bit more pragmatically in terms of there are things that I can do something about and things I can't do something about. So, if somebody wants to delay a Windows 7 refresh because they now have a tablet, I'm not sure I can really do anything about that today. Maybe I can worry about that; I'm not sure that really helps. So I sort of analyze the problem and say what can I actually do about it? I go to ARM, get a processor that doesn't use as much power. I can make a tablet. I can make a better Notebook that competes better with the tablet. I can go to Microsoft and say, hey, why don't you make ARM; Google, why don't you do this, do that? Those are the things we are doing. So --

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

I'm going to put you on the CMC's clock box 11 minute and 30 second rapid-fire session. So I'm going to try and limit my questions to under 30 seconds and I'll try to get you to limit your responses to under a minute so we can plow through these. I have two more for you and then I'm going to go through these. How do you think about succession?

**Michael Dell** - Dell Inc. - Chairman, CEO

I thought we were already in the rapid-fire mode (inaudible).

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

How do you think about succession planning? And how long do you envision being CEO of Dell?

**Michael Dell** - Dell Inc. - Chairman, CEO

Well, we have a discussion every year with our Board, and there's two types of succession. There's planned and unplanned. We don't have either one right now. But if we had an unplanned, our Board knows exactly what to do. At least I've provided that information, do on a regular basis. Planned is a different thing. We don't have a -- I'm not planning to leave and the Board hasn't



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told me I am leaving, so I am staying. So we don't have either one right now. I'll continue to do this for quite a long time, having a great time. I'm a young guy, pretty good health, doing good.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

We're the same age, which I remind myself every time I meet Michael about how relatively unsuccessful I have been relative to him. But nonetheless --

**Michael Dell** - Dell Inc. - Chairman, CEO

But you're taller!

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Last year, I asked you if you would consider taking Dell private and you said yes. It was a pretty curt answer. Can you give us an update on that statement and how Dell thinks about evaluating that opportunity?

**Michael Dell** - Dell Inc. - Chairman, CEO

We have no plans to take the Company private. What we look at is our capital structure. Clearly, as we are generating more cash flow and better operating earnings, we've been stepping up our share repurchase. Certainly in terms of capital allocation, we've been doing more acquisitions and I think balancing -- and an appetite for acquisitions, with share repurchase and also some expenditures on R&D and CapEx. I think that's how you ought to think about capital allocation at Dell.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Do you believe more, on the repurchase side, do you believe more in being opportunistic or trying to kind of set steady level? Obviously, we know that you had purchased personally a number of shares several months ago, and this quarter you had been at a couple hundred million dollar quarterly run rate. You ramped it up to \$400 million. Should we be viewing that as having been opportunistic, given the low stock price, or should we be viewing it --?

**Michael Dell** - Dell Inc. - Chairman, CEO

Was it \$400 million or \$450 million?

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

I thought it was \$400 million.

**Michael Dell** - Dell Inc. - Chairman, CEO

\$450 million.

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

\$450 million? Okay, thank you. So given the step-up in the -- should we view that as having been opportunistic by the Company, or are you kind of -- should we be viewing that as a sign that, given the strength in your business and the stability you foresee, we should be looking for a little bit more in the absolute value of buybacks on an ongoing basis? How do you think about repurchase? Do you want it to be an opportunistic strategy or do you want it to be something that's more predictable for investors?

**Michael Dell** - Dell Inc. - Chairman, CEO

I think, at our upcoming analyst meeting that we are having, I think you'll hear us talk a bit about capital allocation and give a more long-term view of that so investors have a more predictable sense for this. But I think investors can also think of me as I am an operator, I am an owner, and I'm just interested in having the shares appreciate as any other investor. So I think we are thinking deeply about capital allocation, so I would just stay tuned for that, but clearly it's a measure of confidence as the Company's execution improves and our outlook improves. I think it's been increasing.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Is the business -- is the PC business core to Dell now?

**Michael Dell** - Dell Inc. - Chairman, CEO

It's not really the epicenter of the profit engine of the Company.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Would you ever consider divesting part of your PC business or any other part of Dell?

**Michael Dell** - Dell Inc. - Chairman, CEO

Don't have any plans to do that. I think, if one has been studying Dell recently, you know there have been various facilities that we have sold or -- and as we've sort of rebalanced the portfolio in one form or another, don't have any plans to divest a particular part of the Company.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

What is your view on Chrome's place in tablets and potentially in notebooks or even desktops?

**Michael Dell** - Dell Inc. - Chairman, CEO

I think Chrome is not really carved out of a definitive space, and I think of more HTML 5 is an interesting future state for let's call it a less-less device. Now, that's kind of what Chrome is, but if you think about it in the context of HTML 5, it doesn't have to be Chrome; it could be lots of things.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Okay. Could you sum in one word what Dell is today and in the future?

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**Michael Dell** - Dell Inc. - Chairman, CEO

How about two words? Solution provider.

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

I love that question because it was way under our one minute allocation. Lots of macroeconomic data points point to slow growth. What do you see? Government spending is still low. What should we expect in corporate spending?

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**Michael Dell** - Dell Inc. - Chairman, CEO

Yes, I think a little slowing here and there. It still feels pretty good on the technology side. We are selling productivity; people are still buying it.

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Any comment specifically on government versus corporate?

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**Michael Dell** - Dell Inc. - Chairman, CEO

Yes, I mean, corporate is definitely better than government, no big surprise there. Government hasn't been as let's say challenged as some might have expected.

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

A recent Wall Street Journal article about the Street claimed Dell doesn't expect first-generation products to be commercial successes. Quoting consumer (inaudible) saying we see it as a learning experience. Clearly, Apple doesn't approach the market this way. Explain why this go-to-market approach makes sense and why it doesn't hurt your brand and reputation.

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**Michael Dell** - Dell Inc. - Chairman, CEO

Referring to consumer products or referring to which product?

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

The question doesn't say. So it quotes SpeedBook (inaudible) but it doesn't say beyond that. Just the notion of I think saying our initial products don't have to be a success.

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**Michael Dell** - Dell Inc. - Chairman, CEO

We'd prefer they are a success. I mean, I think if you look at this whole tablet space, certainly from an R&D standpoint and a focus standpoint, we are much more focused on the enterprise. We are very much relying on Google and Microsoft and kind of the OS layer. I would say there's a lot of work to be done there. The number of apps available in the kind of state of readiness is not I think where we or customers would like to see it today.

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**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

There are -- I've sort of asked this question but three people have asked it specifically. How about or why not exit retail?

**Michael Dell** - Dell Inc. - Chairman, CEO

Well, if you look at the consumer business at Dell, the last two quarters, we had decent profits. I think we can continue to have a decent profit in the consumer business. Retail is certainly part of consumer. Do I have any plans other than to increase the profits of that business? Certainly they have been on the rise.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

This question I think --

**Michael Dell** - Dell Inc. - Chairman, CEO

The business doesn't really consume any capital to speak of.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

It does have some working capital investment in terms of inventory though.

**Michael Dell** - Dell Inc. - Chairman, CEO

Yes, if you look at the overall consumer business, it is very, very favorable in terms of working capital.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

I think this is about your pace of change. With its hardware focus, is Dell "kicking the can down the road" in terms of business mix shift in services etc.? Will it inevitably have to go through an HP-type scenario as it repositions itself?

**Michael Dell** - Dell Inc. - Chairman, CEO

Not exactly sure what the HP-type scenario is. I'm not sure they know either.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

I think that means a significant bump in the road.

**Michael Dell** - Dell Inc. - Chairman, CEO

A significant bump, you mean --?

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

Bump in the road.

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**Michael Dell** - Dell Inc. - Chairman, CEO

What type of bump are we talking about here?

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

I'm just reading the question.

**Michael Dell** - Dell Inc. - Chairman, CEO

If I'm going to go over a bump, I would want to know what it is before I go.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

I think the notion is, look, as you're transitioning away from the PC business to an enterprise business and it's moving steadily but relatively slowly because you're big company, you're \$60 billion, will you wake up one day where that hasn't fast enough and do you think (multiple speakers)?

**Michael Dell** - Dell Inc. - Chairman, CEO

I think you've got to look at where the margins come from. You've got about two-thirds of the margin not in PC hardware. You know, it could be -- I mean that's a lot. Certainly, it's very different than it was five years ago, or ten years ago. I think a lot of people -- Dell had a very distinct business model. A lot of people still think of Dell based on what it was five years ago or ten years ago.

Now the mix of business and the sources of profit are very, very different. You also see a different profile. You see higher margin; you see more annuity-type revenue streams; and you see record profitability.

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

The final question -- we have a couple hundred investors in the room. Give us the 30-second pitch on why these people should buy your stock.

**Michael Dell** - Dell Inc. - Chairman, CEO

Well, there's a lot of stocks out there. Toni, you've got a buy recommendation on our stock. Why don't you (multiple speakers)

**Toni Sacconaghi** - Sanford C. Bernstein & Co. Inc. - Analyst

They can read mine every day. But it's very rare that they get to see (multiple speakers)

**Michael Dell** - Dell Inc. - Chairman, CEO

I think we're going to continue to put up a nice stream of earnings and profit. I think there are still a fair number of skeptics on our story that came through in some of your questions. I think the results are -- I think it's fair to say it's starting to tell a very different story. If one believes that the changes we are making are real, the results are real, then clearly that business is



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undervalued. I think we're going to continue to focus on putting up a strong, steady stream of earnings and cash flow and taking the right steps to increase shareholder value.

**Toni Sacconaghi** - *Sanford C. Bernstein & Co. Inc. - Analyst*

Michael, thank you very much.

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