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Maynard Um: I'm Maynard Um. I'm the IT hardware analyst at UBS based in New York. I'm very pleased to have today with us from Dell Stephen Murdoch, who is the Vice President and General Manager of the public sector and large enterprise businesses. He's also the spokesperson for Europe, the Middle East, and Africa with 23 years of IT experience, the last 6 at Dell, formerly, also, as well, at IBM. So vast experience within the sector.

David Mehok is also here as well, Executive Director of Investor Relations, to also help in the Q&A.

So, with that, I'll introduce Stephen, and we'll kick it off.

Stephen Murdoch: Good afternoon. Best slot, the one where you're eating lunch as opposed to the one where you've just eaten lunch, which would probably be a little bit worse.

I have had 23 years in the IT industry. Obviously, I started work when I was 12. Those were just testing to make sure I have some degree of attention over the sandwiches.

We're going to take about-- probably about 15 minutes and just lay out at a high level the progress we've been making as a company, the context for what we're trying to get done-- so a little bit on the strategic context of what we stand for and what we're trying to achieve, and then, really, get into a question and answer dialogue with you and make sure we cover what you're interested in covering. And, for that, I'll ask David to come up and help me with any of your particularly difficult questions.

With that, I've got to start with a "don't try this at home" message. So this presentation may contain forward-looking statements, and actual results may differ materially, given risks and uncertainties.

We'll also refer to GAAP and non-GAAP metrics, and the reconciliation is in your handout.

Okay, so, with that, let me jump in.

The first key points I'm going to talk about-- Firstly, before I tell you about the context of what we're trying to accomplish, I felt it was important to ground some substance in terms of where we are now so that you have some immediacy to those remarks. Then, secondly, I do want to spend about five minutes and just give you a view of what we're trying to accomplish as a company, this fundamental piece of our strategy, this focus towards the midmarket, and then how we see long-term value creation.

We've had, really, quite a pleasing start to this strategic execution that we've been under as a company. We laid out a strategy that said we're going to focus on deepening the IP and the capabilities that we bring to customers. And, in a nutshell, what we're trying to stand for is being a deeply relevant IT solutions provider to our customers because we think that relevance-- it's hard to add value because you don't have access and capability, and it's hard to sustain a long-term agenda of value creation because you're not in the correct discussions at the correct time and not important to what your customers are trying to accomplish.

To do that, we recognized we needed to deepen both our skill sets within the organization and also the intellectual property that we bring. And we've been on a path to do that, both organically and inorganically. We've added 11 acquisitions in the past 20 months, and we're happy in the Q&A to walk through where we're at on the specific acquisitions. But each one is either fully integrated or on track to being integrated as per the plan, and each one is ahead of the financial commitments that we set for them at the time that we did the acquisition. So we feel pretty good about that.

We've also committed roughly $1 billion to the complementary organic expansion necessary to support that. So, for example, we bought Compellent, which is storage technology, heavily U.S.-centric with good presence in the U.K. And that organic investment is to complement the expansion of that portfolio into the rest of our markets. And you can see some progress there. We sold in 47 countries. We completed the transaction in February. We were active in less than 30 countries at that time. We're now active in 47. You can see how the organic and the inorganic touch together there.

We also see this strategy playing out in terms of the mix of our portfolio. So we now have a very strong and healthy enterprise solutions and services business, which is actually growing ahead of our core, both in terms of revenue and in terms of profit. And that's what we're using as a proxy for two things: one, adding value to customers and, second, the progress on the strategy. If we can get the right mix of-- and mix shift in our portfolio, then we believe that's because we're adding more value. If we add more value, we create more sustainable value for the longer term for all of us.

The investments are very focused on the correct pieces of the IP profit, so we-- you can see that play out in two dynamics: one, mix, which is growth of enterprise and servers and storage ahead of the core and, the second, discipline and execution around the supply chain. So the discipline is in pricing and portfolio management for pieces of our business that are less attractive for the long term or less sustainable for the long term and supply chain execution. So we've dramatically improved with just our transformation costs to turn components into products. We have materially increased the flexibility of the supply chain such that we've reduced their overdue orders by close to 60%. We're putting more of a product into different fulfillment writs, such as ocean freight and in direct channels. So all of those give us both flexibility and the operational execution benefits.

And the overall financial dynamic is to grow operating income and cash flow. We will not pursue share at the expense of those two metrics, and we will invest OpEx to enable higher value, higher gross margin businesses. And you'll see our OpEx increase, but you'll see our gross margins and, subsequently, our operating income increase as well.

The strategy-- Let me frame up the strategy. The best way I can describe this is how we talk to customers. Our opening statement with customers is: You spend too much money on IT. As an IT vendor, that may seem like an odd statement, but it's grounded in the following. Where customers spend money, they frankly waste far too much of it. So, Gartner or Forrester or any of the analysts will give you a slightly different number. They all vector in around 80/20-- 80% of a customer's budget is focused on keeping the lights on. 20% is on making them better buying for a better retailer or-- so innovation for want of a better description.

That complexity is only getting worse. You may have got a situation where, literally, you have always-on connectivity. You have billions of endpoints. There's more technology in your car now than there was in some supercomputers not too long ago. You'll have technology in your clothes through RFID. There's literally billions of endpoints, all of which is leading to an unparalleled data explosion. And it's really hard to get your head around some of these numbers - exabytes and all of that.

If you think about the-- Schmidt from Google has said - If you imagine every piece of information that's ever been created, ever since the dawn of time up until 2005, we now create that amount of information every 18 months. Or the latest data that says the amount of information that exists in the world is going to be 44 times bigger in 2020 than 2010. You try and get your brain around that.

The other dynamic is that 90%-plus of that data is unstructured, so it's videos, its e-mails. That's very difficult information to mine and exploit and come into value. Consequently, 90% of that isn't looked at after it's been created.

So you've got an already constrained IT environment, where you're spending too much of your money keeping the lights on and you add all of that complexity and then something has to give for customers.

Our approach to dealing with that basically is very pragmatic and very focused, and we, in essence, negate the complexity out. We first start with the unnecessary complexity that exists in IT, and there is a lot of it-- multiple-server architectures, multiple-storage architectures, duplicate applications, all of those things. There, it's all about rationalizing it, consolidating it, getting rid of it, or, worst case, automate it. That leaves you unavoidable. Your whole, big business running IT is unavoidable. You've got complex businesses. But, there, things like virus, malware, backup, recovery, you have to do it, but it doesn't make you a better bank. So get that automated as a minimum, or get it in the cloud. That leaves your maximum resources to focus on the strategic challenges you face as a business.

All of our acquisitions line up against those three towers. So, Compellent is about dealing with unnecessary complexity by automating many of the tasks that today require people. SecureWorks is about taking the virus/malware threat and outsourcing that piece of the problem to someone that's better at it. SecureWorks has hundreds of customers, not thousands. And we manage one trillion security events per quarter.

So why would a customer try and do that, get it in the cloud, get it managed to an SLA, which then leaves you the ability to deal with the strategic. And there's where something like Boomi would fit, which allows you to integrate cloud-based models with legacy models and get one, 360 view of your information inside a customer.

So we're orchestrating all of our emphasis, both organic and inorganic, against these domains to support that agenda with this goal - balanced liquidity, profitability, and growth.

We've got this midmarket design focus, and it's really fundamental to what we're trying to accomplish in the company. Most of that 80% that I mentioned just a moment ago is really people. And a lot of that comes from the engineering of the answer is too complicated. So people typically engineer from the very biggest, most complex problem. That then requires a lot of people and a lot of process work to get the technology exploited. It then doesn't scale downwards because small and medium businesses, government institutions, they can't afford that dynamic labor. It also doesn't scale for a vendor because it's a high-touch sale, and you can't do high-touch sales into SMBs.

So our design focus is, if you constrain your thinking to how do you solve the problem fastest using a blend of people, process, and technology-- how do you make it something that is digestible and can be executed broadly in an SMB environment? You come up with better answers. Those answers, frankly, apply to a big customer as much as they apply to a small customer, so it scales up easier than the other one scales down. And that really is what we're trying to accomplish.

And, to do it, we've added 5,000 additional team members, mostly focused on more strategic areas of service, storage, cloud, and services. We have 46 datacenters. About 30 of those are ours, and the rest are customer datacenters that we manage. The smaller ones are very modular, small, contained, can be commissioned and brought up in weeks, not months and years. We've built 22 solution centers in globally, so we can take customers in and solve complex problems with them. We touched on the acquisitions. And we're actually trying to be an end-to-end solution provider for the customer from the end user productivity device, whether that's a smartphone, a tablet, or a PC, through our use case, like virtual desktops or cloud, all the way through to the mission-critical datacenter, all these aimed at the midmarket focus from a design point of view and not from a targeting point of view.

So how does that come out in terms of strategic intent? Long-term value creation is really all about the balance of liquidity, operating income, and cash. So we're ahead of where we said we would be on a trailing, 12-month basis on all three of those metrics. And we take that as strong encouragement that the strategic direction is being validated by customers, which is the most important point. And we will continue on that path. We're locked on a clear agenda, no material deviations.

We will, of course-- We're quite attuned to this because of the direct relationship we have with our customers. We will, of course, moderate this to a changing macroeconomic environment. So we have the opportunity to slow the pace in certain areas, refocus the investments into those higher-return areas. So we will execute to this framework for the longer term within the immediate context of what's happening in the marketplace.

Just wrapping up by getting a little more specific, in what we call next-generation computing solutions on data management or, said differently, how you provide computer power and how you manage data, then we've added about 1,600 very specific subject-matter experts to help with that transition to a much more value-oriented relationship with customers. We have about 2,400 engineers now. We've got eight R&D sites, and you can measure our R&D as a percentage of revenue in the double-digit range in that space.

We've got a lot of activity around the cloud and around solving practical problems in the cloud. A good example would be, and I hope this never happens to anyone in the room, but, if you have to have an MRI or a CAT scan or something like that, there's about a terabyte of data created when you do that. That is a lot of data. And hospitals are doing that many, many, many times a day. So, with an acquisition that we did built on top of an existing capability that we had inside Dell, we can now manage that in the cloud. So the terabytes of image are now offsite in a cloud. The ones you require immediately because you're still in active care are onsite, and you have this hybrid solution going on. So that's an example of investments in the cloud.

And then what we call end user computing-- so that's the productivity devices that we all carry around-- our focus, really, here on the emerging use cases particularly in virtualization is where we're investing the specialists. And, in the core portfolio, it's around supply chain optimization to enhance profitability and around the particular challenges that are prevalent in an end user environment. So those are mostly security. How do you automate the use of those machines because the purchase price is less than 20% of the cost of one of those assets. 80% for a customer is in people having to touch them through maintain and support and keep them up to date. So most of our R&D there is targeted on driving automation in that space rather than ultimate configurability of the product. And, again, we go to the R&D sites, a blend of ours and partner capabilities.

In a nutshell, great progress on the client business. I think I've probably touched on much of this. So you can see we're much less exposed to consumer than some of our competitors, and our consumer business is much more about building a sustainable profit foundation so that we can then grow appropriately. We're doing that through opting out of certain pieces of the business-- very low end of retail, for example, very price-point oriented-- and then managing the product mix. So we're growing our high price points in consumer much higher than the low price points, and we're growing our premium products much less than our mainstream products. So pretty disciplined.

You can see the progress in gross margins and gross margin rate. Last quarter, we didn't see a great deal of component price deflation, and we still managed to manage through this with sustained product margins. So we're pretty confident that, at least, a large proportion of this is sustainable in structure. Of course, some of it is market and opportunistic around the components.

And we also have good growth in profits of the market. If you take what we call growth countries, so, in Europe, Middle East, and Africa, that would be excluding mature, western Europe, our business is growing close to 20%. If you do the same thing in Asia-Pac/Japan, by excluding Japan, then we're close to 20% again. So pockets of good growth, again, with sustained investment throughout.

It also allows us to fund a great deal of that transformational activity that I've talked about today by having a sensible, healthy, sustainable core client business that's pretty pivotal to the rest of the portfolio.

Enterprise growth. If there's growth in countries ahead of the core, there's growth in lines of business ahead of the core as well. So servers, networking are up close to 10% against 1% for the business overall in second quarter. Services were up 6%, but, within that, the deferred backlog was up 11%, so we're building a capability for the future. And the Dell IP storage, the Dell branded storage, was up 15%. The decline that you saw in storage overall was as we cleaned through the low-margin resale business that we did historically with EMC.

And you can see the very dramatic shift in our gross margin over time, from '05 to '11, where, now, 49% of our gross margin comes from servers, and only-- what's the balance on client? -- 46% on client and 15% in storage. So a much more robust and balanced sources of profit model as we try and drive and change the mix of the business. And, again, you can see, from an '05 period to FY '11 up nearly 87%; so, an $18 billion enterprise datacenter oriented business.

That's probably in there. All right.

We feel that we've got a broad portfolio, well balanced across segments, no material exposure to one segment over another, a proposition that resonates well across industry that we are adding deeper specialization on top to provide an industry lens, most notably in healthcare, for example, through to that medical archiving image that I mentioned previously or some of the digital forensic solutions that we're providing to the police force, for example, here in the U .K., with the British (inaudible), where it's an ability to parallel process digital forensic evidence as opposed to sequentially process it. So, if you find a satellite navigation system or a thumb drive or a mobile phone as part of a criminal investigation, that had to be tagged and treated sequentially. We now have an approved solution where it can be tagged still in the rules of evidentiary procedure but can be worked on in parallel by multiple technicians, really compressing the amount of time it takes to mine that information. And, if you think about it from a context of time-critical data, perhaps in a terrorist situation, it's really of interest to the police. So horizontal IP orientation with a vertical use case and IP lens coming down on top.

That's probably-- We've touched on-- You can see through FY '15 how we anticipate seeing the business evolve; so, from 67% of our business as client. Client, for us, is desktop, notebooks, and end user devices, not a person. It took me a couple of years to work through the terminology change. So that would be less than half of our business by FY '15 as we drive this mix shift.

Okay. So, old Dell, a great source of very value-oriented technology sold in real time moving to try to be a deeply relevant provider of IT to our customers and, through that relevance, add value through adding value capture-- value for shareholders and the employees and do that on a sustainable basis.

So, with that, let me stop. Let me get into whatever you want to get into.

Maynard Um: We have a mike going around. Raise your hand.

Maybe I'll just kick it off. One of the slides, you talked about the-- adding 5,000 growth-focused team members, announced in one of the investor(inaudible) that had been out there was around sort of the cost in terms of OpEx. Just curious, I guess - where is Dell now in terms of the investments that are made relative to the potential revenue growth that will start to come out of that?

Stephen Murdoch: They really vary by technology types. So let me give you a couple of examples.

On storage, we think the product portfolio is broadly complete now. We've seen their launches of the Exanet acquisition last week-- last week? Week before?

David Mehok: Two weeks ago.

Stephen Murdoch: We've got a full portfolio of products, and we've added a great deal of specialists now to ramp. So, if you want to think about that one, the catch-up is done, and it's now growth-enabled expansion on that one. So that one clearly is moderated to how we see the demand, and we can drive that.

Networking. We're at the beginning of that curve. We just completed the acquisition of Force10. We believe that's a genuinely disruptive technology in the networking space, which hasn't had that disruption for-- frankly, ever. So we'll have a period of investment in that networking space as we ramp the technology into multiple other countries.

The prove point there would be when we bought EqualLogic about three years ago. It was about a $150-million business. We're now going to exit about $1 billion run rate on that business. So we put the Force10 piece-- So you'll see more investment in Force10.

On a more macro level, you'll see us-- We've got good line of sight to demand because we have very direct relationships with customers. And you'll see us temper and moderate our investment to that macro environment but not compromise the long-term operating income and cash flow objectives. So we'll still focus where we capture more margin and fund that OpEx investment. And we'll also seek-- We think there are many areas we can still do this in our supply chain to continue to optimize costs and value and reinvest that saving into innovation and capabilities.

It's not really one answer to what is a pretty straightforward question.

David Mehok: There are some counters to that too. We're maniacally focused on G&A, and we've been reducing G&A pretty consistently. We're going to continue to do so going forward.

The other one is the channel. We call it Partner Direct at Dell. But those partners out there which are now getting close to about 80,000 certified Dell partners-- we're going to be leveraging those partners. They're important to us. They're key resources. And we're getting them ramped up on the Dell technologies that we're brining on board, whether it be Force10, Compellent, or some of the others, to make sure that they can effectively represent Dell. So a lot of technologies that we're ready to bear on the marketplace.

Audience Member: It's astonishing that all the large players seem to move into software and services like HP, IBM have already done. So what makes you confident that you, having started a little later with that strategy-- that there will be competition ahead? And is that going to be a threat for the margin outlook going forward?

Stephen Murdoch: We're not trying to do the same thing that they're trying to do. HP, we're pretty explicit that their aspirations to be a software company when 3% of the revenues today are a software company-- we've got a real balanced approach in people, process, and technology and using technology to rip out the inefficiencies that a customer experiences in his environment. So that's why, even in difficult economic times, we're pretty confident that the proposition works because it's very return-on-investment oriented, and it's not discretionary.

It also isn't monolithic and, therefore, criteopaic in terms of when you get your payback. So it's very granular, very focused on what we see as real, tangible problems in the customers today and not this one-size-fits-all approach. It's also not the heavy manage everything in middleware, which, frankly, just hide the complexity underneath a layer, and run it with armies of people. It's not that kind of design point.

So we think we're pursuing a different strategy, one that's end to end from the end user productivity device through the use case to the datacenter. And we think that's different than what HP and IBM are trying to do.

David Mehok: One more point of differentiation is that, obviously, IBM's selling off their client business, and HP what they want to do with theirs. We feel that's a fantastic business for us. You've seen the profitability profile of it. We also feel that it's very impactful for us to walk into a customer and be able to sell them their IT solution portfolio, whether it be desktop or datacenter. And that's another key point of differentiation that we see going forward.

Stephen Murdoch: A couple of quick points on that, since the HP-- I don't know what-- the announcement, I guess, you would call it. We've had tens of customers a day calling us and saying it is a pretty pivotal part of their productivity agenda. Can you come and talk to us about how you see this moving forward, because we need to understand what the dynamics are. We're also seeing that greatening from channel partners because, in that midmarket space, HP go to market through channel partners almost exclusively. And, clearly, they have customers that serve, employees to pay, and they need a degree of certainty on their future and their proposition. We're a really good partner for that. So we're seeing some pretty good traction there as well.

Audience Member: If I can ask a question just on the revenue side of the equation-- you answered a part of it. But I think part of the impact on the revenue is also happening from pruning. To, to sort of get the re-acceleration on the revenues, part of it would be the end to the pruning of the businesses, combined with then the ramp in some of the newer businesses that are coming. Where along the timeframe are we? Are we-- we'll use a baseball analogy in innings, but that probably wouldn't work as well here. I guess where along are we within this sport-- pick one.

Stephen Murdoch: On some of it, we're in the top of the seventh. Does that work? Let's split it out into its pieces. We had elements of the portfolio that were low-margin resell; two principal examples. One was in storage, where we have a 14-year relationship with EMC, and we've now got a full portfolio. That was a low-margin resale business for us. We've now got a full portfolio of our own IP, which generates more value for customers and, consequently, more value for us. We will have burned through that kind of drag on the revenue within two quarters for sure. It's full steam ahead to do it faster than that, but within two quarters for sure.

We also have another piece where part of the company is easy to do business with. So we had a lot of scenarios where we've got a contractual relationship with a customer, and they would come and say - Can we buy the following software from you? It would just be easier if we could buy it from you. So we weren't really adding any value. We were just making it easy for the customer to do that. That happens so many times that we had a portfolio that kind of burgeoned of this type of stuff that wasn't really adding material value. So we've been pruning all of that out. That has slightly longer legs because some of it's tied up in longer-term contracts. It's good things to do, and we're kind of bombing our way through it. It's hard to quantify exactly.

And then there are some pieces that are just ongoing discipline and portfolio management that we will not go back on. So low price points in retail are not particularly attractive and sustainable as a pure, point in time, commodity buy. It's not really attractive to us. In the corporate space, there is a portion of the volume in the market that is large, reverse option, I want to buy 10,000 things. They don't ascribe any value particularly to the things, and that's not a business that we're going to get back into in any time soon because it's just not sustainable for the longer term. So that one will continue. That will be like the World Series. It will go on for seven or eight rounds.

Does that answer your question?

Audience Member: Could you talk a little bit about acquisitions and how they've contributed to the $9 billion to $18 billion increase that you show here in the revenue in the total enterprise area and then also, I guess, how integral they are to growing going forward?

And maybe you could just give some comments with regards to-- notwithstanding the comments you made about the differentiation of your strategy. But it does seem that there's quite a number of large tech companies with cash-generative, legacy businesses who think pursuing a services-oriented strategy, which seems to be, I guess, bidding up M&A potential candidates. How should we be thinking about M&A within your strategy going forward? Maybe you could talk a bit about that.

Stephen Murdoch: Sure thing. You can maybe help me with some of the more metric-oriented pieces of that.

But, from a design point, the criteria that we have for acquisition decisions are pretty comprehensive and pretty disciplined. First and foremost, the IP has to be disruptive to an existing inefficient model, back to that 80/20 thing. Secondly, it has to be midmarket design point oriented. And then there are some things that may be a little surprising. It also needs to be something that we're really confident we can integrate and execute, get into our sales force fast and therefore scale. If it doesn't meet those criteria, we don't do it. And, of course, there are other normal, traditional-- you know, price versus (inaudible). But, from a design point, if it doesn't meet those, we don't do it. And you can fit all of them into that category, Force10 being the latest, Compellent just behind and EqualLogic as a proof point for it. So that's the principal focus.

We will also do some IP oriented acquisitions where they make sense to close a gap. And a good example of that would have been Exanet, which was a technology front end to EqualLogic that allowed us to cover more customer demand - file and block storage, the kind of technical stuff. And that's in the product.

Then the last piece is scale to execute the proposition. So, we've been pretty open that we need more geographic expansion in our services capability, particularly in Europe, Middle East, and Africa and in core elements of Asia-Pacific.

So they'll fall into those three buckets: core product portfolio if it's disruptive, IP to round out existing portfolio, geographic expansion to enable.

Most of our growth areas, server, which is organic-- we're about to go on the thirteenth generation of our server portfolio. We also have a big services business, which was about 65% Dell, 35% Perot. So it was a big piece of that that, again, was organic. The inorganic were things like EqualLogic going from 150 to a billion. And then the rest are pretty small. So, today, you would see it as mostly organic. And now we've rounded out the portfolio with inorganic, we think we can go and attack different pieces of the IT profit pool.

David Mehok: Perot would have been part of that, though. But, as Stephen mentioned, a lot of the-- you saw the stat up there, 11 acquisitions in the course of 20 months. So a lot of that IP now is being integrated into products, and Exanet, for example, just launched a few weeks ago. So now we're just starting to see the benefits and the revenue associated with some of those acquisitions.

Audience Member: Can you maybe just add on to that and talk about which areas-- obviously, cloud requires certain pieces of the puzzle. You've gone out and acquired a number of them - security and networking. What other pieces of the puzzle are sort of missing, interesting? When you look at some of the other strategic assets that an IBM or HP or some of your other competitors have gone out and done on the business analytics side, et cetera-- just your thoughts around that and the industry trend and then how Dell kind of looks at that in terms of how it fits into your strategy.

Stephen Murdoch: We have multiple pieces of our cloud strategy, everything from-- we started a business, I want to say, four years ago or maybe three years ago called datacenter solutions, which does the custom design for most of the big cloud providers - Facebook, Salesforce.com, these types of things. So there's a product orientation to the cloud. Then those specific use cases, like security and so on that you need. And then the datacenter infrastructure to enable us to deliver that proposition more widely. So the billion dollars of organic investment that we talked about includes datacenter footprint expansion and solution center expansion to enable that cloud piece.

We also bought Boomi, which allows integration between cloud models and legacy models. So we've got those pieces of the puzzle.

I think what you'll see now is a combination of us adding vertical answers, like InSiteOne on top of that infrastructure and then rounding out some of the other pieces. So billing in cloud and use case monitoring in cloud is one of the challenges that needs to get solved. Security is an ongoing-- you'll see us kind of focus investments and kind of rounding out the proposition by filling those gaps and increasing the footprint--

David Mehok: The Boomi one actually comes to mind right now. Last week, at DreamForce, which is the Salesforce.com conference, we announced a small, business-based cloud solution using that Boomi technology. And, essentially, what it does-- if you think about some of the on-premise applications you may have-- let's just say you're a small business, and you're operating with Quicken. And you want to integrate all the information you have in Salesforce.com. What you normally have is an IT administrator trying to marry up all the data, taking days, weeks, possibly months. What the Boomi technology does is, in a matter of hours, marries up all that data and allows you to manage it seamlessly and very simplistically. And that's a great example of the kind of things we're trying to do with the cloud by bringing these technologies to life in the form of these solutions to give, many times, if not all the time, focus on design.

Stephen Murdoch: Customer use case for that-- most customers now are having much more complexity in their route to market, so they've got-- or they've been this intermediate in the route to market-- pick a newspaper with the internet and so on. So a 360 view of their customer base and the data around the customer is really pretty pivotally important to their ability to go and pick marketing campaigns and what they need to accomplish. So Boomi fitting between the two things takes them a huge step forward to being able to get that 360 and then, subsequently, being able to use that data that, today, is just too difficult to get at.

Audience Member: This morning we're hearing that the government sector is softening. Is that your experience? Any more you can say on that?

And, also, where are we on the corporate refresh cycle?

Stephen Murdoch: I'll do the second one first. The corporate refresh cycle is well underway and have a lot of legs in front of it. It's the kind of characterization. Microsoft think that the Win 7 adoption is about 30%. That would probably dovetail with what I see when we go talk to customers.

There's also a server refresh as well. But the dynamic is a little bit different. If it's at all discretionary, it's gone. It needs to be very-- become investment oriented, very specific to a payback period, very specific to a project. And those projects are alive and well and healthy in the corporate space. And they play pretty well to our approach. I think it's got some ways to run yet.

In the public sector space, it's mix. There are-- We've been pretty open in Fed in the U.S., for instance. The purchases are (inaudible) rather than being deferred. So they're taking more to get approved. In Europe, I would say that's exactly the same dynamic, probably a little more skewed to, if it's discretionary, it's not getting done. But the projects that have that payback are getting done. And then there are areas of the public sector, whether that's countries, Middle East, the Nordics countries that are still very healthy and very good.

And there are pieces of the segments that are good. So, in the U.S., I think we'd say that education and state and local governments have gone pretty well. Healthcare is a very good segment for us.

So it's not public is a challenge. It's pieces of public that are challenges. Therefore, you need to be much more specific and disciplined in how you go after the opportunity that exists.

David Mehok: Obviously, none of this is commentary on current quarter. But heading into this quarter was interesting on the federal side because you had this dynamic of a federal government that always spends its budget, not surprisingly, and the fiscal year rapidly approaching, September 30, and running out of time to accelerate the spending in order to spend that budget. So the next 30 days is obviously critical, and we'll obviously know a lot more about what the spending environment is going to look like to see if they can, essentially, meet the challenges of getting this through their contracting shops and spend their entire budget by the September 30 date.

Audience Member: I think one of the strategies that you have-- you focus on servers, networking, storage services. The one that would seem to be surprising would probably be servers, which I think a lot of people just look at and say, well, it's a commodities business. It's competitive. So I'm just curious why-- what you're seeing in the server market. There's a lot of concern about the Asian ODMs coming into this market. Why wouldn't the servers be more of this type of commodity market, where the margins are thinner, whereas you're talking about the server market being one of your growth engines, arguably, pretty good?

Stephen Murdoch: Servers are mission critical in pretty much every customer environment. And, therefore, there are-- As with all pieces of IT, there are different classes of workloads, some of which customers worry about a lot more than others. Therefore, some of the low-end workloads they treat much more like a commodity, but the higher-end workloads are the mission-critical kind of capability.

We see a slightly different paradigm, which is, in the old world, a system admin, so an individual, could manage maybe 30 servers-ish. If you're really exceptionally good and highly virtualized, you may get that up into the hundreds. The big cloud providers are managing thousands. So how do you get a step change in efficiency in your datacenter? What needs to happen in your processes? So you think about how you re-architect it. All of that has something to do with the hardware. You need the hardware to execute it. But it's more about how you design it, how you package it, how you deploy it, how you implement it, how you think about the workloads. So we think that's a lot less open to anybody coming in and treating it like a commodity. Of course, there are some elements of the workload that are simpler workloads that you can run like PC workloads, but a huge amount of it isn't open to that type of (unintelligible), certainly not in the short term.

David Mehok: There's a huge premium placed upon those things that you referenced. If you look over the course of the last two years, our server ASPs have expanded pretty dramatically. And it's driven by virtualization and richer configurations but also the services and solutions we're wrapping around these servers.

Audience Member: Just on the near-term side of the servers, do you see any sort of slowing ahead of new products that are going to start to ramp up as we go ahead? Do you see your customers kind of putting the brakes on? How do you distinguish that from an actual macro type of environment?

Stephen Murdoch: What we said when we did the Q2 announcement is that we see the opportunity as, my words, not the company's words, kind of patchy in some places and fragile in other places. One of the areas where there's still-- we're still confident there are very strong growth opportunities are in the server space and in the networking space because there's real ROI for customers in that. So we have blips, and, as you look three, four, or five quarters at any particular time. As we said coming out of Q2, we feel pretty good about the trajectory in that part of the business.

Maynard Um: Anyone else? Well, one last one from me. Just, you know, if I think about the old Dell, and it was more of a transaction-based type of business, and, clearly, you've done a lot to transform it. But, if I think about your customers in that old business model, it seems-- it would seem to be sort of a back office versus front office customer, now moving more towards that front office customer. So there's been this shift in terms of your customers and who you're touching. So how has that transition been for you? And are you now at the point where you feel comfortable you've got those front office customer discussions and feeling pretty good about how you've built that out? I guess, can you talk about that transition from the different customer base?

Stephen Murdoch: Yeah. Firstly, it's a fair characterization. We were an exceptionally effective transactional sales engine. And for the parts of the business where that's the correct sales model, and there are some of those, and for bios where that's the correct sales model, we will continue to be exceptionally good at doing that kind of stuff. It's a nice engine. You can generate good returns from it. We're going to keep doing it.

In terms of having a more value-oriented sales force at the front end, which requires engaging earlier and engaging more from a customer issue orientation rather than a technology orientation, that's where the investment in training, in hiring, in the solution centers, in the consulting expansion in our services business has all been focused. And that's an ongoing-- that's something you keep going forever. You just keep refining and improving your people.

What I would say-- to enable that, all of the plumbing is done. So we're globally consistent on our sales compensation plans. Those compensation plans are oriented towards value, so they have more margin components than revenue. We have consistent training and definitions for certification levels. We have a very focused approach and how we bring those people in. We've got one CRM system globally that allows us this one view of our customers. We've got one consistent sales process globally. So we feel very good that all the plumbing is done and that the specialists we've added are right in the sweet spot of where we're intending to be. And then it's a case of refining and improving and continuing to train and upgrade the sales force. But that's much more of a business as usual dynamic than a catch-up dynamic.

Is that it?

Maynard Um: Great.

Stephen Murdoch: Thank you, ladies and gentlemen.

Participant: Ladies and gentlemen, before-- It's that time of the conference where I think it's prudent that we thank a few people in terms of having pulled this all together-- first and foremost, the investors who, without your support and, more importantly, interest in these companies, we wouldn't have a Best of Americas; secondly, to the companies who've traveled a great distance to be with you and to create what we set out a number of years ago to do, which is the internet experience between North American corporations and the European community; and, thirdly, and most importantly, my colleagues in U.S. research, the likes of Maynard and his colleagues, who helped us access some of these companies who've come to the Best of Americas to participate-- U.S. access, who, again, are professionally linked to all of the companies in America, my colleagues in sales here in the U.S. and Canada, global sales feeding into the community. But, finally, and it's always very important at this time to remember that you can have a plan and you have a strategy, but, at the end of the day, it's people that execute it. And those two over there, in particular, Chiquita and Sophia, and myself sort of-- we start tomorrow on the next one, number seven, which will be 6 and 7 September next year, and, of course, Kim.

Now, I want to focus on Kim, who is standing at the back there because she is often the unsung hero of this whole thing. Every time Chiquita and Sophia and I have had a plan and we've set off in the direction of executing it, she's had our back every step of the way. And I think never more this year than when we embarked on the Cisco tele-presence has somebody been more responsible for managing a process which is extremely complicated. I was at PaineWebber in 1994 when we started on the information super highway, and I thought I knew a lot about technology. But what she's had to deal with, certainly, in the last 25 to 30 days as we pulled this together has been unbelievable. And, without her, that experience which we all had yesterday in terms of going to Minnesota and also to San Jose would have just not happened. And, for somebody who isn't a techie to pull it off has been remarkable.

Anyway, we look forward to seeing you next year. This is a sort of an interactive process. If you have companies that you're desperate to see that you feel have been shirking their responsibilities here in Europe in terms of the Europe community, then, please, let my colleagues or ourselves know, and we'll do our best to sort of have them come and confess in front of you. We'll see you next year. Thanks.

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