Dell Inc.
Citi Technology Conference
September 7, 2011
11:05 a.m. CT

Richard Gardner: My name is Richard Gardner. I follow the hardware sector for Citi, and we're very pleased to have as our first keynote today, lunch keynote, Dell, and speaking for Dell is Brian Gladden. Brian has been chief financial officer at Dell now for three and a half years, following a 19-year career at GE, and thank you very much for joining us.

Brian Gladden: Thanks, Rich. Good to be here.

Richard Gardner: So you've been CFO at Dell now for three years. It's been a fairly transitional period for the company, a lot has changed. Can you talk about the transformation that's occurred since you've been there, and talk about some of the tangible manifestations of that transformation for us, to begin.

Brian Gladden: Well, I mean, it's been a pretty exciting time to be at the company. Some pretty dramatic changes and transformation in the shape of what Dell is and what it's focused on, from a strategy standpoint. You know, clearly an initial of focus around cost, and reshaping the overall cost structure, especially around COGS in the business, and repositioning the company for competitiveness and execution, and I think we've had some good success in doing that. Pretty dramatic improvement in client profitability, and then a second phase, really focused on reshaping the mix of the company, and that's really around expanding the enterprise business, some pretty dramatic investments in storage, pretty dramatic investments in the services business, recently in networking and software, and those are areas that, you know, we ultimately believe will become a much bigger part of the company over time. And today, that represents about an $18 billion business, and significantly higher profit levels. We think that can grow faster than the market, and will be a catalyst for continued improvement in profitability, but also growth for the company.

So, the shape of our resource base, from manufacturing historically a supply chain-heavy company, to now, if you look at the headcount at the company, much more commercial and services-oriented, pretty dramatic shift. Going from a company that was generally not necessarily as acquisitive to one that, did probably 12 acquisitions in the last two years, and a commitment to continue to be acquisitive as part of our strategy. And the continued globalization of the company, with strong presence in growth markets and emerging countries, a strong position in India and China and Brazil as a key platform for growth in the future.

So, those are key elements of the transformation of the company. As we move forward, we'll continue to see a predominant focus of investment and capital allocation around that enterprise part of the business, and the client business, we continue to believe, will be a critical element of our portfolio, and we will continue to have a strong cash flow generation from that business, as well as contributions from a commercial relationship standpoint, especially in emerging countries, where that tends to be the initial relationship we have with our customers, as well as a big piece of procurement leverage that facilitates other parts of the business, too. So, we think the portfolio makes sense and we think there are clearly more things we can do to add to our capabilities around the enterprise side of our business.

Richard Gardner: OK. I wanted to come back to the 12 acquisitions that you've done in the last two years -- they've been in a variety of different spaces, from storage to security and systems management, and then most recently, Force 10 in networking.

Brian Gladden: Right.

Richard Gardner: Can you talk about the key strategies that underlie such a diverse list of deals that you've done? What exactly is it that you're trying to create, and why those 12 companies in those disparate spaces?

Brian Gladden: Well, I think a lot of it is fitting pieces of the puzzle into a broad strategy of building out an enterprise capability. I think in every one of those 12, you would see a commitment to grow the business as a key element of the business case. We've had in general a focus around storage, around services, around networking now, and those-- and software. Those would be the four key pieces that I would say have been consistent areas of focus, and, I think we've had relatively good discipline and patience in our process around executing and picking targets, and in every case, we had -- at our analyst meeting a few weeks ago, or a month and a half ago, we had some of the founders of some of those acquired companies participate in that meeting, and you know, consistently what you would hear is that a focus from us, in terms of adding resources around R&D, adding resources around selling those products, and solutions to customers that really is the basis for the business case, which we'll see pretty dramatic acceleration.

And we've got several proof points around that so far. EqualLogic is a great example, where we've, you know, taken it from a $150 million business to probably approaching $1 billion business, where we've taken something like KACE Systems and made that five times bigger in a period of 18 months or so, and we think Compellent will be along the same lines. And really, it's about a very disciplined process of investment and focus around growing those businesses.

Richard Gardner: OK, since we are on the topic of R&D, I think there is still a fair amount of skepticism within the investment community around Dell's ability to actually be an intellectual property company.

Brian Gladden: Yep.

Richard Gardner: And to foster and grow these R&D-intensive businesses that you've acquired recently, so you already addressed the question a little bit in your last answer, but can you talk a little bit more about what you've done in terms of ramping up resources at some of these companies, what you've done in terms of headcount retention at the acquired companies, other metrics that help us understand how well you're executing against the acquisitions that you've done, and becoming more of an IP-driven company?

Brian Gladden: Yeah, I think it fundamentally starts with recognizing we're going to have two different, pretty different, business models, as you think about our core client business, the capital we allocate to that business and the R&D expense we have in that business will continue to be scaled very effectively and pretty low. When you look at the other parts of our business, you look at our storage capability, which today will be something over a $2 billion business, you know, we would have over 10% investment in R&D in that business. So we're looking at them in significantly different ways and making investments to ensure that we grow those businesses. And we'll probably see even higher levels of R&D in some of those parts of the business.

In terms of acquisitions, I think what we've seen in terms of integration is a much more disciplined process, and we've taken best practices from around the industry, we've now dedicated almost 200 people to the process of integration, not counting M&A, in cross functional teams that are fully dedicated to integrating the acquisitions. Regular visibility and inspection around progress there, and I think a lot of lessons learned that are now being incorporated into what's a pretty repeatable process.

So, that's a capability we didn't have even two years ago in the company.

Richard Gardner: OK. Can we talk a little bit about the Perot acquisition? It's been two years since we did the Perot acquisition. You laid out some fairly aggressive cost synergy and revenue synergy targets at the time of the deal. Are you happy with the current momentum of the business, if you take a look at things like pipeline and close rates and growth in deferred revenue, and do you feel like you're executing against the plan that you laid out at the time of the deal?

Brian Gladden: Yeah, we really did bring that together into one services business, and more or less executed a reverse integration, so we took Dell Services and put that together with Perot and created an $8 billion business today. We are now pretty much fully through a lot of the integration activities there in terms of business case and how we feel-- we feel very good about the execution, delivering on commitments from a business case standpoint. You look at second quarter results for our services business, deferred balance was growing at 11%, you saw over $1 billion of new signings, to new customer logos in the quarter, you saw also, which we didn't talk about in the earnings, but a pretty good retention of existing logos in terms of those contracts, and good progress in terms of now a platform that we can begin to probably do some more acquisitions on top of. We want to get through the fundamental consolidation and integration activity, bring that together. I think we feel good about that now. So, services business is in pretty good shape and is something we can grow, going forward.

Richard Gardner: OK. Can you talk about specific areas where you see the most momentum within services right now, and areas-- maybe areas where you need a little bit more investment as well?

Brian Gladden: Yeah, you know, I think the big opportunities for us continue to be in global expansion of services, and we have great depth in health care, we have a strong position in the U.S. in that business, the results there have been very good. I think global expansion becomes an opportunity, and as well as vertical expansion in some other key markets.

You'll also see us probably build, invest organically, but also invest in some acquisition activity around more contemporary intellectual property that allows us to create, you know, services offerings that are more repeatable in the midmarket, and I think that's a priority for us as well.

Richard Gardner: OK. From an expense perspective, Brian, you're on track to grow operating expenses I think 20%-plus this year on a 1% to 5% growth rate in top line.

Brian Gladden: Yep.

Richard Gardner: I understand that it's calculated, but would love to hear exactly what you're investing in, and also, you know, an early sense of whether you're achieving the level of productivity from these investments that you would like to?

Brian Gladden: Yeah, it's a very focused set of investments, specifically targeted at many of these acquired assets, in terms of building R&D, scale, and capability, adding to the resources to accelerate that intellectual property in the portfolio. And then on top of that, a pretty significant investment in sales capability around the enterprise, specifically. And I would say specific specialists that are in areas like storage and networking, as well as some of these services offerings, that's been the big area of focus and investment. And I think it's really been the last three to four quarters where you've seen a pretty significant ramp of that talent.

I think that as you look at hiring these kinds of new resources in our business, there is definitely a ramp period and the sales cycle for some of these areas is longer than what you would typically see in our core business, our historical businesses.

So, the productivity does lag, and that was something that we knew going into this, that there would be a period of investment, that the P&L wouldn't necessarily hang together and OpEx would look like it's growing out of sync with the rest of the P&L. I think we're now getting to the point, and we've got mechanisms and tracking in place to ensure that we're seeing the payback that we need. We had all of the key business dynamics modeled, to the point where we knew how much we would get from each sales person over some period of time, and how quickly the payback would be for all those hires. We're now in that window of time we're starting to see the benefits and beginning to see early signs that those assumptions generally make sense.

Now, I think as you get towards the end of this year and into next year, you'll start to see the benefits of that broader, bigger salesforce, selling these products and solutions. So, not necessarily seeing the productivity today, but ultimately managing that with a lot of inspection and detail, to ensure that we're going to see it.

Richard Gardner: OK. I think the street is concerned that you may be making these investments just ahead of an economic downturn. Certainly the commentary over the last day or two has been very mixed here, in terms of demand and I don't think any of us is quite sure what to make of it at this point, but assuming that demand does continue to slowdown, how much flexibility do you have to slow down the rate of OpEx investments, and what is your contingency plan for the back half of the year if your 1% to 5% top line growth rate doesn't materialize?

Brian Gladden: Yeah, I think we're making some conscious decisions right now and you know, we even said it in the earnings call a few weeks ago, that moderating some of those investments, the rate of incremental investment, I think it's prudent not only given the demand environment, but also given the productivity dynamics that we're seeing -- you know, we'd like to see this investment begin to pay off, and maybe do a little bit of a pause, so we can actually watch that happen. So I think as you watch our second half, you'll see us be a little bit more deliberate and controlled in terms of how we're thinking about OpEx, given the environment, but also given the fact that we made some pretty big investments here and we want to see that pay off. So, that's how we're thinking about it in the second half, not changing our commitment to grow these acquisitions and grow these new businesses, but probably be in a little bit more disciplined and prudent in that process.

Richard Gardner: OK, and are there opportunities to continue to cut costs within the core business as well?

Brian Gladden: Absolutely. I mean, I think what you will have seen over the last even few quarters would be some areas, we continue to take costs out of the business. We can talk about COGS, but even in the OpEx line specifically G&A has been down in the business over the last two years. There are places like within the client business where we've been able to optimize our R&D spend and take some cost out and shift some of that investment clearly into the enterprise side of our business. And I think we showed some data at the analyst meeting that says our R&D spend within the client business is down 30% year over year, which has enabled us to fund a lot of the other areas.

So there are clearly programs and activities going on to take cost out of other parts of the business.

Richard Gardner: OK. You mentioned the investments that you're making in specialist sales for service, storage, and networking. I guess first of all, can you maybe give us a sense of how much of your selling expense that represents today, and I realize that these are going to be ongoing investments, because these are growth areas of your business, but my impression is that a lot of this catch-up spend for Dell right now. You're just in the process of building out a true sort of specialist/generalist enterprise sales force -- how much longer does it take before we get back to more of a steady, steady state sort of run rate spend in this area? Is it going to wrap up by the end of this year, or is this something that's going to extend well into next year?

Brian Gladden: Well, it clearly was a catch-up and implementing a new sales model that allowed us to have technical expertise and specialists in some of these enterprise areas is a critical element in the transformation. I do think that the majority of that loading of investment without the productivity to support it should be behind us, and I think as we start to see sales teams generating revenue and margin in the second half and towards the end of this year, that model will hang together much-- in a much cleaner way.

I think we've got a baseload of capability now in key markets around the world that allows us to be successful, and then we can watch the market and see how the demand trends sort of move from there. I think that's how we're thinking about it.

Richard Gardner: OK. I'd like to talk a little bit about client margins, where you've made some pretty substantial progress just over the past three or four quarters.

Brian Gladden: Yep.

Richard Gardner: And you've been using the improvement in client margins to fuel, as you said, a lot of the investments that you're making in the enterprise space and the solutions area. At this point, you are generating client margins, I believe you said, that are above 5% operating, and you're best-in-class margins in terms of gross margin at the client level. Does that suggest that you're pretty much done with the cost reductions within the client side of the business at this point? Are we reaching more of a steady state there, or do you see additional opportunities there as well?

Brian Gladden: Well, I don't think the opportunity ever goes away. I think there continues to be a big effort around continuing to improve our cost position in the client business. I do think we've gotten to the point with profitability we see today with a lot of longer-term efforts that we've talked about for a long time, that are supply chain-focused, but also commercially focused, and our ability to do value-based pricing, to ultimately prune parts of the business that were lower margin and weren't contributing to the portfolio, all of those activities have combined resulted in where we are. I think much of that is sustainable. I do think when you look at the individual areas of cost of goods sold, transformation costs and the simplification of our product lines, as well as our bill of materials, much of the heavy lifting was catch up that we had to do, and we've got a lot of that behind us. I think we're in a reasonably competitive spot right now, and I think it's now we're in this mode of every year, you've got to continue to find opportunities to take cost out. But I think we're in a spot where we can be competitive and grow with or faster than the market, in some places.

Richard Gardner: OK. I think there is a perception on the street as well that a lot of the improvement in client margins has been driven by commodity price declines. I get the sense that the street thinks it's more cyclical than structural, so I'd love to get your perspective on that and just whether you agree or partly disagree or wholly disagree with that statement.

Brian Gladden: Well, there clearly were a period where we saw pretty good commodity deflation in the business over the course of the back end of last year, early part of this year. I think the environment we saw in the second quarter had relatively benign deflationary dynamics, so much less than we would have seen the prior three, and we-- for the most part. I mean, we had gross margins sequentially down about 70 basis points from the first quarter to second quarter, mix had something to do with that. So I think we've done a reasonable job of maintaining relatively high gross margins for our portfolio.

We would argue that much of the work we've done around pricing discipline, around the mix of business moving to higher value, higher price band kind of products, has been a big driver, as well as the work we've done on the supply chain, and that's sustainable. I think the reality is, is it's just going to take time to show that that's sustainable for the business. And we think the second quarter results are a good sign that most of those changes are sustainable and something we can count on to deliver, going forward.

Richard Gardner: OK. And what do you think is the sustainable rate of growth for the client business? It still represents close to half of your total revenue, and I think if you polled this room, you might get a substantial amount of people that would say that they think this is a no-growth, an ex-growth, or a declining business. What is Dell's perspective on that business?

Brian Gladden: Yeah, we haven't provided really a longer term outlook. We'll do that over the course of the second half of the year. I would say it's important that we recognize that as you look at 2/3 of PCs today are going to, from a unit standpoint, go into developing and growth markets. I think you'll see that continue to expand, and that's a market that will continue to grow. We're fairly well-positioned. You know, obviously a good position in India as the number one client in India, number two in China, number two or three in Brazil, depending upon the quarter, and we have good exposure to all those growth markets.

So, I think- you know, there's going to be clearly dynamics that drive different perceptions on that growth rate. I think we believe we can grow faster than the market and still see that as a place that will grow, as we move forward.

Richard Gardner: And emerging market, I guess, are 10% to 15% of revenue, growing 20% to 25% per year, if--

Brian Gladden: Yeah, I think it depends on how you look at it. We've been talking about growth markets, and if you exclude the U.S., Japan, Western Europe, and you look at the rest of our business, that represents, I think, today about 28% of the business. We've done a pretty programmatic effort over the last two years to take the brick and then apply learnings we've had and make investments specifically in the next ten countries that we believe are emerging countries. We did that last year and built infrastructure that I think will serve us well going forward. This year, we're actually investing in the next ten countries, so we're now at a place where we've got the BRIC plus 20 as markets that we believe we have the appropriate investments to be able to grow, you know, at or faster than the markets.

Richard Gardner: OK. One of your competitors, your largest competitor has announced that they're exploring strategic options for their PC business. Can you talk about what impact you have seen or you expect to see on your business related to that?

Brian Gladden: Well, I mean, what I would say right now is we've seen a fair number of customers coming to us and asking us to, you know, talk to them about the PC business, in addition to the broader relationship. And I would say that's a broad statement across many different markets. I would say the channel specifically. We view that as an opportunity, obviously. We've got capability in a broad set of offerings, not just in PCs but across the portfolio that we think- we've said to our customer base, we're very committed to that business, and I think that remains true.

So, I can't say that we've seen a pick-up in orders, I can't say that there's anything different in terms of overall demand as a result, but you know, clearly we see it as an opportunity and it's one that, you know, we prepared and we've activated resources internally around taking advantage of the opportunity and all of the disruption that we think could occur here. So, you know, we'll continue to watch it.

Richard Gardner: Can you be maybe just a little bit more specific about what it is that you're doing internally to target the opportunity?

Brian Gladden: Well, something simple, like we've created a dedicated kind of SWAT team specifically targeting some of the opportunities that we'll see, and you know, with the regular rhythm and dedicated cross-functional team that's everything from branding to how we offer products in the marketplace to how we follow-up with inquiries we get from customers. And I think that's something that will have regular visibility at the executive leadership team and Michael to the progress there and to the extent there are other areas we need to invest to optimize the opportunity, we'll do that.

Richard Gardner: OK. One of the big debates that I often see my competition write about is the fact that some of the notebook ODMs in Taiwan, the Quantas and Compels of the world, are talking about getting into the server business, and there's a big debate about whether the Googles and Facebooks are going to go directly to the ODMs and completely disintermediate companies like Dell in X86 servers. You know, I'd love to-- I'd love for you to talk a little bit about DCS, what Dell is doing in DCS, and- because I think that's part of the story that's a little bit misunderstood.

Brian Gladden: Yep. Well, this is our business focused on high-volume server environments, and I think we've had some great success in building a set of solutions there that don't just include the product itself. Some of it is broader kind of ecosystem solution, some of it gets into modular data centers and how we can package overall solutions for customers, and then ultimately customizing specific server designs for certain environments, depending upon what customers want.

I think we've seen areas where there alternatives for some of these customers. We've been a big supplier to Facebook over time, and then they would be one that, you know, clearly and publicly, has been talking about exploring these options, and in some cases, are doing it. But there are key areas for them where we still are a very valued supplier. And I think, we've been very, very deeply integrated with their team in terms of building solutions that meet their needs. And that business for us has grown double-digit for the last three to four years, and is generating solid operating income for the company. We continue to see that as a growth opportunity.

There are opportunities and specific customer deals that can be very low-margin in that space, and as part of our efforts to improve profitability, we've managed through, in some cases, not even participating in some of those deals, so it can be a little bit lumpy in terms of unit volumes. But at the end of the day, it's a good business that we think will be an opportunity for growth, even with some of these outside forces and new competitors.

Richard Gardner: OK, I was surprised, at talking to Brad, that he mentioned that it's on close to a $1 billion run rate, so that's about 15% of your server business today and you're doing business in that area, with most of the major companies, high-volume companies, that are designing their own servers.

Brian Gladden: Yep.

Richard Gardner: Are there any questions from the audience at this point? Todd?

Audience Member: Brian, just a couple of questions here. First of all, since your earnings call a couple of weeks, when you guys lowered guidance a little bit, have you seen any further weakness or nervousness in your customer base since then?

Brian Gladden: Just to clarify, we lowered the revenue guidance; we took up operating income of the year. I wouldn't say over the last three weeks we've seen anything that's different. We said that consumer was clearly the market that seemed the most challenged, especially in developing countries. Would say that's still consistent. Other parts of the business continue to be about what we said. Our expectation for the third quarter is basically to see typical seasonality. What we've seen over the last couple of years, so about flat from a revenue standpoint, second quarter to the third quarter. No new view on that.

Audience Member: Richard talked about client operating margins, but in consumer, your margins, your operating margins, were down a little bit, quarter over quarter, and I'm wondering if you could put a little more meat on that bone, as to what was going on there, and then I have one more question.

Brian Gladden: Yeah, consumer- we've talked about it for a while. Last year, we were talking about trying to get that to a 2% operating income business. I would say in the current environment, we've been trying to manage that to about 3%, and be able to grow the business at the same time we're generating that level of profitability. I think we were 4.5% in the first quarter, we were about 2.5 in the second. I think you're going to see some level of volatility when the numbers are that small. At the same time, I think there are some mix elements quarter on quarter in terms of retail versus direct that play out in that business.

We're pretty pleased with that level of profitability, and the fact of the matter is, if you believe the IDC data, I think we actually grew share slightly in the quarter as well, so--

Audience Member: My final question - last quarter, you guys benefitted from a vendor settlement, and I was just hoping you could give more details on what that specifically is?

Brian Gladden: Yeah, these supplier relationships, from time to time, there is disagreements and negotiated settlements, and that's clearly what this was. I think we talked about the size of it in terms of in the quarter. And you know, it's-- I would consider it a one-time sort of event at this level, in terms of the materiality within the quarter, without providing any other specific details on the settlement.

Audience Member: Hi, thanks. In this interest rate environment, how much debt could the company put on its balance sheet to make an acquisition?

Brian Gladden: Well, we've got a relatively conservative capital allocation strategy for the business. Clearly we have articulated a commitment to continue this transformation. Acquisitions will be part of that. Our model for acquisitions and our success thus far has been around these smaller types of acquisitions. I know companies that have greater than $100 million of revenue but you know, aren't so large that they create a significant risk in execution-- I think our integration process has been pretty effective at that size, so we're targeting, you know, if we did a $2 billion acquisition, that's a relatively large acquisition for our company.

In terms of appetite for further leverage, I think we're going to manage the business in a relatively conservative way, and that's just the way we're running the company, so it's not-- we're not going to take on a big acquisition or significant debt to do that.

Audience Member: Can you give us an idea on how much focus on cloud- the cloud business?

Brian Gladden: Well, I think cloud for us is a big opportunity, and as you look at, historically, and DCS is a good example, where our investments, our capabilities, have, in the infrastructure business, has enabled a fair amount of the cloud activity and progress that you see in the market. I think today we're now building on some of the acquisitions we've made, the services capability we've made, and beginning to build out a set of solutions that we can offer to the marketplace around the cloud. And I think all the way from data center outsourcing and running peoples' public or private clouds, but also a set of solutions that play, to some extent, in the mid-market more effectively. So you'll see more and more from us. You've begun to see some of the early announcements of capability there. But the pieces of the puzzle on the enterprise side that we've put together actually begin to facilitate a great deal of cloud-based solutions. So it'll be a big focus for us and you'll see more as we move forward.

Audience Member: Thank you. How should we think about your strategy around media pads? What-- you know, how should-- what should we expect to see there?

Brian Gladden: Media pads being tablets?

Audience Member: Yes.

Brian Gladden: Well, I think we've had several products in the marketplace, Android-based for the most part. We've had a fair amount of success in some global markets with some of those products, but not nearly what we would like to see. So, I think what you'll see from us, as these operating systems and the applications ecosystems around them, and I wouldn't say just Android. I would say Windows clearly is another area of focus for us -- you'll see us continue to bring products to market, but specifically focused on the high end of the consumer, and the enterprise, and as you see devices sort of moving between the two, our focus will be around a broader set of solutions that we can bring to enterprise customers that allow them to optimize the use of these devices in their environment. So that would be things like security, and how you manage the image of these devices, how you partition data, how you synchronize data, how you access applications within the enterprise for these devices. So I think that'll be our area of differentiation. To some extent, dependent upon maturity of some of these operating systems and probably we'll need some intellectual property around that, from a solutions standpoint.

So that's going to be our focus as we move forward with tablets.

Audience Member: A basic question, when Dell's current transformation is complete, what do you think the company will look like, described in terms of maybe sources of profits? And is there a part two, a technology company or a company in maybe a non-technology industry that you say you are trying to emulate in terms of where this transformation is going?

Brian Gladden: Well, clearly, the fundamental dynamic that'll change a lot is the mix of business towards more recurring revenue streams, to higher margin and to longer-term, higher-growth potential markets, highlighting things like storage, networking as opportunities for us there.

If you look at the macro company today, somewhere in the range of 50 to 55% of our revenue comes from the client business. I think the other part of our business, which is the software and peripherals business, and then our enterprise solutions and services business, that represents, today, $18 billion. We fully expect that $18 billion to grow much faster than the rest of the portfolio. The mix of business will then shift. Today, profits from that portion, that $18 billion of the company represents more than 15% of our gross margin as a company, despite the fact that client has gotten significantly more profitable in that dynamic. That should continue, and we have lots of example of that happening in places like our storage business today, where we've moved from a reseller environment to more of a Dell intellectual property and Dell technology-based storage solutions, and today, while that revenue is shrinking as that reseller business goes away, gross margins and operating income in that business continue to grow. So, I think you'll see the mix of business move over time to much more recurring revenue in some of these spaces that I think have higher margins and higher growth potential. I'm not sure we have any company that we're trying to emulate, but there's clearly a, almost, good bank/bad bank discipline around cost, investment, and CapEx in the company, where we're spending a lot more in the way of investing in the enterprise portion of our business, while leveraging the cash flow potential and profitability that exists within our core client business.

Richard Gardner: Other questions? I guess I'll ask one more, then. Can you talk about early progress within the storage business? You've obviously done a number of key acquisitions there, including Compellent. EqualLogic has been a big success story for you, and you've acquired a couple of other companies – Exanet. How is the storage business going? Are you satisfied with the early momentum on these new technologies, and how long before we get the storage business back to growth again? How long before the mix shifts enough towards your own IP that we start to see growth in that business again?

Brian Gladden: Yeah, clearly, a great story from a profit standpoint, and the mix of that business changing dramatically over the last multiple quarters. I think we'll work our way through the majority of that headwind as we head into the second half of this year, into the fourth quarter specifically. We would expect in the fourth quarter, or first quarter, we would return to an overall growth in the storage business. The Dell intellectual property portion of that business grew at 15% in the quarter, driven mostly by Compellent. I would say that reality of progress we've made there, from an acquisition standpoint, is a great part of the success story. If you look at the EqualLogic and the growth rate that we've achieved there, if you look at the success, the early success, in building not only revenue, but a pipeline within the Compellent business early on, and the profitability that we're driving in that portion of the business -- we expect, as we said at the analyst meeting, this will be a $5 billion, a $4 billion to $5 billion revenue business in three years, which is more or less doubling what we've got today.

So, feel great about the portfolio, have made some smaller technology investments, from an acquisitions standpoint, that we're now integrating, capabilities like de-dupe and others into the portfolio, and ultimately feel very good about the competitiveness of that technology and the market position. And again, a lot of the investments we've made on the selling side are around specific storage specialists who may be experts in Compellent or EqualLogic or general storage. So, feel pretty good about the position of that business, and like the early signs of progress.

Richard Gardner: OK, well, I think we're about out of time, but Brian, thank you very much.

Brian Gladden: Thanks, Rich. Thanks, guys.

END