

9th Annual J.P. Morgan Tech Forum at CES
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The Bellagio Hotel, Las Vegas

Moderator: Mark Maskowitz, J.P. Morgan

Dell: Steve Felice-President, Consumer, Small and Medium Business

Dell: Michael Tatelman, VP & GM North America Consumer, Global Mobility Sales and Global Partner Marketing

Mark Moskowitz, J.P. Morgan:

Alright, let's get started. It's 9:10 so, good morning everyone and welcome to the 9th annual CES Tech Forum here hosted by J.P. Morgan. My name is Mark Maskowitz. I'm the IT hardware analyst here at J.P. Morgan and it's a great pleasure to have with us today 2 executives from Dell. First off, we have Steve Felice, the president of SMB and President of Consumer, and then Michael Tatelman who is the VP and General Manager of North America Consumer Global Mobility Sales and Global Partner Marketing.

So, gentleman thank you for participating today we are going to start out with a few questions from me for about 15 minutes or so and then we'll throw it over to the investor audience. Why don't we first, before jumping into some of the CE, the CE question here, regarding CES, lets first talk more about Dell and the strategic turnaround to the consumer business; there's been some tactical changes, management changes. So maybe Steve, if you could kind of just weigh in here, you have been at the helm here for about 2 quarters now, leading the consumer charge as well. If you could just kind of maybe talk about what you've learned from your SMB's success and what you could maybe apply to the consumer business.

Steve Felice, Dell:

Ok well there are a couple of aspects to talk about this. First of all this, kind of the basics of how Dell operates, what I've learned over the SMB experience over the past few years is that if we focus on the right product portfolio and market it to the right customers we could end up basically growing share in a very profitable way and what I'm really saying here is to go back to the root of Dell as a trusted advisor. Because we had this unique competitive advantage with SMB, where we have a direct relationship with customers and none of our competitors can say that; a typical small business, if they

aren't dealing with Dell, they are dealing with a value added reseller and so taking advantage of that trusted advisor status enabled us to really move a mix of substantially on the client side and the enterprise side, so we saw over a couple year period, us evolve from a business that was in negative growth mode and low profitability to over the last year and half a very substantial profitability while we are gaining share. This year we are gaining over 2 points per share in the SMB space and we are operating at close to 10 % operating income which is got to be best of breed against our peers.

Now that basic strategy we've been applying to the consumer business, this year getting back to the trusted advisor status with brand messaging out there that really emphasizes our focus on individual customer needs whether that is a family with kids or gen Y or professionals; moving more into focus on the higher price point products, the products that relate to those customers focusing on the customer experience would dramatically improve that over the past year to the point where we now believe that we are at a competitive advantage against uh our typical peer. Competition in the overall experience of a customer, getting our delivery times back to what people have expected from Dell and really, really, focusing on the experience with our customers and so now you know, we are starting to see the effects of that; we are starting to see profitability back in to the business and I think you know we are well on our way to duplicating what we achieved in SMB in the consumer space.

Mark Moskowitz, J.P. Morgan:

Maybe you could touch a little more on the SMB success trend-wide, in terms of what type of initiatives or customer changes are taking place right now in the SMB marketplace that you feel Dell is in best position to maybe pursue and maybe build out a bigger footprint in that market leveraging some of that success you talk about.

Steve Felice, Dell:

Well you see a lot of this manifests itself in our acquisition strategy. Small & medium businesses are concerned with a few things in particular; one is data management. They really want a simple way to manage their information. EqualLogic has been an outstanding acquisition for us in the SMB space. We're seeing continued high double digit growth; the storage product has very significant margins and it's really because this product provisions itself in a matter of hours. It's easy to use so the small businesses that don't have a big IT staff and they need things that are robust, reliable and easy to use.

Another big trend is that as these businesses grow and they start to have about 50 or so employees they really have trouble keeping track of their assets so one of the big needs that are expressed to us is systems management. The acquisition of KACE is our answer to that, where we have given them a great capability, here again this product provisions in a matter of hours; it tracks all of their assets. You can download software cluster across the employee base, they can track the utilization and the

capacity and know when to change components or change hardware things that they would normally have to hire a systems administrator for and pay \$100,000 a year when they can buy something for \$15,000 and get the replacement. And again very high margin product for Dell. The success of the KACE acquisition has been tremendous. We have quadrupled the sale of that company's product in less than a year's time from when we acquired them.

And, 2 more trends that are taking place: security is a big area of concern and this is why we've launched security clients with Juniper. This is why we bought SecureWorks. This is why we continue to have robust relationships with companies like McAfee because, as we, again, are the trusted advisor with the small, medium business, we can provide access to security solutions.

And the last one I'll mention is cloud computing; many of the small business want to have flexible access to the best of breed capabilities like Salesforce.com for their sales systems or Intuit for their financial systems. There is a whole host of businesses here but they don't have a way to connect these and that's what's been their struggle. They don't want to go all the way to an Oracle SAP type solution because it's a little too robust and it costs a lot. That's why we bought the company Boomi, because Boomi enables a very simple integration of the data between these various cloud-computing applications. So a small business can have these best of breed solutions but have them talk to each other.

Mark Moskowitz, J.P. Morgan:

Those are great, great megatrends you've mentioned. I wanted to follow up because it seems like there is a common theme here in terms of kind of a plug and play we do some of the complex themes reduce maybe more, if you will, "chefs in the kitchen." Do you see more of this plug and play trend line kind of suggesting that over time we are going to revert back to the one stop shop or maybe we don't need to have a bunch of service providers and system integrators but you just see like the Dells, HPs, Cisco, and Oracles, IBMs of the world trying to be all things to all peoples again?

Steve Felice, Dell:

Well I agree that there is definitely a trend towards moving to simplicity and being able to have plug and play. Where I think there's divergence in our strategy is I think I believe that Cisco, HP and IBM are going in the opposite direction. They are moving, and you see it in their offerings, they are moving to a (sic) stack that is not simple. It might be comprehensive and solve a lot of needs but it's typically very costly and it's not very flexible. You cannot move off it, you cannot integrate other company's components into it. Dell is taking a very different approach and I like the fact that we can talk to our customers in a way that says "hey here's what they are all doing here is what we're doing it's different do you agree with this." But we're really on a path of integrating open based technologies so that

especially mid market customers have the flexibility to build their solutions in more of a stackable ways as opposed to making one big investment and being locked it to it.

I think the mid market is fabulous opportunity for technology. There is more money being spent in technology in small medium businesses around the world than any other sector of the technology market. Our competition typically focuses more on taking global 500 needs and trying to push them down to the market where we have direct focus right on the mid market. That's why I think our, that's why I think your starting to see our margins improve, you're starting to see our enterprise mix continue to grow, and you are seeing very good growth while we're increasing profitability.

Mark Moskowitz, J.P. Morgan:

Thank you for that color there. Either for you Steve, or for you Michael- if you guys want to weigh in, just kind of a question more what have you seen out there or has been changing or is about to change in terms of the products that customers that geographic through us that Dell is having to maybe change some of their philosophies or strategies.

Michael Tatelman, Dell:

Well certainly over the last several years and when I spoke here last year we spoke about the growth in the emerging markets and you know we've had a pretty good year from a consumer perspective in the fastest growing markets in the world. This year we achieved number one supplier in India, and we've held that post for the last two and half quarters. We've gotten to be number two in China, which is a market that is continuing to ramp up at very, very, fast rate and is really starting to have a replacement cycle that bodes well for higher end products. And the same for other markets around the world: Brazil, the Middle East, Russia, etc. So we've had to, you know, expand our geo focus.

From a channel perspective, it has been a pretty big change for us over the last couple of years. Even now I think the footprint is starting to mature. Under the new organizational, regional organizational structure that we have, I mean we're in the mode to really optimize it and figure out how we get the series between those channels across our lines of business like small businesses and consumers.

You know, below what Steve is talking about in the small business space is kind of the micro business which in many parts of the world is really the biggest market. That's kind of the one to five, one to nine, whose needs in some ways to mimic those of the larger customer. If you're a 5 person company and you have a need to share data you probably are not going to want to manage it on a server. But, you might want to do it on a cloud. You may want to have a server, which you need to have some application type management on so we focus, we started to focus a lot on building out those solutions for even the micro size business customer around the world.

And then the assets - I knew you were going to ask anyway - but last year again we talked about the notion a million to one and that there was going to be a lot of proliferation, huge proliferation of devices. Frankly, between last year and this year, I'm a little bit surprised at the pace. Not that it's happening, but of course people are carrying a lot more technology with them; and, the proliferation of smart phones and tablets and PCs of different kinds for different applications. The news cases for different segments enabled by faster networks and lower rate plans. And the flexibility of how you manage your million to one environment is starting to manifest in our need to enter different segments from a product perspective. You will hear more about that today in our announcements that we'll be making around eleven o'clock this morning.

Mark Moskowitz, J.P. Morgan:

Maybe this is a follow up- Michael, could you talk more about the retail footprint. I know that Dell has been very active the past 2 years building out the level of support- first tier, second tier. I think you have over 60,000 reseller partners. A few years ago, it was less than 30. So, maybe talk about how those initiatives are playing out and how they will contribute to maybe incremental profitability within the Consumer business.

Michael Tatelman, Dell:

Well in the emerging market, where we focus on building our footprint, it's not 60,000 customers. It's about 60,000 points of presence across a lower number of distribution and retail partners around the world. There's wall to wall profitable business and the way to think about it for the future is to try to start finding the synergies across the channel. For example, if you look at Walmart.com, today you will see a Dell store on Walmart.com. And you will see a subset of that store manifest itself on the shelf. And you will see Dell.com having yet a wider set of products and the services that go along with it that differentiates the Dell solution from buying it retail. Finding those synergies across our channels and offering them to different consumers for different experiences in these cases is one of the ways that we can optimize the footprint that we have.

So, for example, in India where we have achieved the number one market share, I think it's a real study on how we have been able to optimize those multiple footprints. Our direct business in India manifests itself in retail. When you walk into a store in India, you walk in, it looks like a store with sales people and products and demos but in fact what you are doing is you're buying and tendering sale over Dell.com. In India and you'll get it shipped to you within 3-5 days, alright? It's an incredible synergy for us and it's very, very, profitable for us. It's also a fabulous business model for a distributor who has almost zero cost in inventory and zero cost of entry, other than rent and employees. We help

them with training, we help them with demos, we have vendor partners that help them with signage and other merchandizing capabilities. It's a very, very, low cost way to get in.

So I think we are uniquely positioned with our multi-channel strategy across these 60,000 or so points of distribution to have the coverage, to have the capability to play multiple channels, and therefore provide the experiences that people want depending upon their use case and where they are.

Mark Moskowitz, J.P. Morgan:

There was a follow up in terms of Asia and South America. Those two markets seem to be driving a lot more of growth or could be driving a lot more of the growth going forward. What does Dell have to do different or maybe the same in those two respective markets that you've done in developed regions? And how could that maybe change the competitive landscape? And one other piece to that is, do those customers want a smaller line cart in terms of less choice? Do you have to narrow the products or do you actually broaden the products that are served in Asia and Latin America ?

Steve Felice, Dell:

Well, within Asia you have to break apart between Japan, Australia and China and India. So, Japan and Australia we take approaches that are very similar to the U.S. and Western Europe. But, China and India, we start, we embarked on this several years ago and that's why Michael has talked about the success we've had there. We implemented a very different strategy for emerging countries where we simplified the product line. We focused much more on the specific features the customer wanted and took out the features they weren't necessarily interested in and really catered to products that meet those needs.

In fact, the Vostro line, the surge of the Vostro line, came from designing the product first for India and China, which was a new thing that Dell had never done. We usually started out in the U.S. and then move out. But we designed that product specifically for India and China and then we didn't allow the feature adds that the U.S. would want to put on, which would be typical but would add to the cost and would add to capabilities that weren't valued to those customers. So you know I think we took a different product approach for the emerging countries, we took a different marketing approach in small medium business.

We launched a campaign called "Take your own path" started in India and the brand consideration for Dell went from number 6 to number 1 in 3 months. What we did was we focused on what we called heroes. Those are small business in India that became big business and they felt technology was important to their success and they linked their partnership with Dell to their success. But it really wasn't about Dell it was about them. And we learned that focusing on individual entrepreneurship and

the success stories that happened in the emerging countries really resonated with people. And we started rolling that out around the world. And that, you know, I don't think it's coincidence that our brand consideration when we first launched that brand program two years ago, went from number six to number one. And then about a year later we actually attained number one in product sales.

So, all of these things are sort of linked together in Brazil. The last point I'll make is, in Brazil we already enjoy the number one brand, rated brand. I think it's probably a secret to people, but if you go and ask costumers especially on the commercial side in Brazil, we are ranked number one. Dell comes out number one consistently and we have our highest share of servers and storage in Brazil than in any other country in the world. So it actually started out because when we entered Brazil, we actually stated out with an enterprise strategy.

What we've learned, again, is that in all of these countries, we don't just have to jump to the low end and focus just on two and three hundred dollar products. These companies have lots of employee of population that are plenty affluent enough to be running business, to have the right mix. And so the more success we have in these countries is because we really are selling across a broader product line. We are still emphasizing our enterprise strategy and we're really focusing on our brand tenants as opposed to just the price points.

Michael Tatelman, Dell:

I just wanted to add one more thing. I mean we've done, we've also, I think distinguished our selves, I think, from an organizational perspective. I think in these countries in almost every single case we have local management teams. Our China team is led by a nearly 100 percent Chinese team. I'd say you have to count on one hand the number of ex-pats we have. You know in these territories in India Meheshball has been running that business now. Ahmed Hussaini in the Middle East who, you know, is really familiar with the local business and we spent a lot of time nurturing that organization and those gains and it really helps with understanding the intricacies of you know kind of even silly things. In India, like the difference in taxation between different states and having a local distribution presence in one state or optimize your business from a distribution perspective to another state you kind of have to be local to understand those things. So I'm really proud of the organization we have around the world and the diversity that we have and the local presence we have as well. We've had good profit growth I mean you take Asia we have significantly outperformed our competition in Asia and have been doing it in a very profitable way.

Mark Moskowitz, J.P. Morgan:

Thank you for the color there. Maybe we can actually shift gears now to the CE topics here in CES and Michael alluded to upcoming announcement from Dell maybe you want to use now, you can preview these things.

Michael Tatelman, Dell:

Want to hear it here first?

Mark Moskowitz, J.P. Morgan:

But maybe just talk about the important topics today, the tablets and mobile devices and how they are driving what I think is this ubiquity of mobile commerce or what soon will be ubiquity of mobile commerce. So maybe you can just weigh in on how Dell plans to be there both from a product perspective as well as maybe as a consumer's perspective.

Michael Tatelman, Dell:

We'll start on the product side. First of all, it's certainly early on. As you look at the development of eco systems and the Apple eco systems, starting with the smart phone and then kind of going to the tablet world with iTunes being the center of the eco system. This year Android passed Apple from an install base perspective on the phone side and I think this will be a year where you are going to see a tremendous amount of growth in the eco system around the Android based tablets.

And Microsoft hasn't even really entered the market yet but as you think through the evolution of Windows Live and what they announced yesterday around arm based support. If you look at the Xbox environment with what, they said a big number yesterday, I don't remember if it was 50 or 60 million Xboxes, and the Xbox Live environment. I mean you can see the foundation of yet another eco system developing in this environment so it's early times. I think when you think about the evolution but what happens at the end of the day is that it's a million to one world and the proliferation and the number devices that people will carry with them.

I was with a retailer last night that was talking about the book reader and whether or not that's going to be extinct based on the proliferation of 7 and 10 inch tablets. It's a question that I don't know the answer to, but yet another category of device which means you are going to be carrying more than one. So you'll see us, you know, further enter into the tablet market.

Today we will announce a 7 inch tablet in cooperation with a U.S. based mobile operator T-Mobile. We'll have the first 4G entry into that market with a really brand new technology. I mean, will show Dell not just having the product realization but the R & D to develop on, develop on a video based platform of one of the first which is a screaming graphics and video capable product with a beautiful

form factor corning glass which is a durable product and running on T-Mobile which has the fastest 4G network in the U.S. And we'll talk a little bit about some of the evolution of that line. We'll also announce a kind of a baby brother to that tablet with a 4 inch phone product that will kind of go along with it.

So we are in the market; it is the early days you know, we already announced this year the Inspiron Duo which is, you know, and incredibly innovative form factor. I'm sure you've seen it on the TV with kind of the flip screen. It's a Windows based product and it's open mode. It's a standard PC for usability to offer and build applications and do work and then if you flip it, it becomes a Windows based tablet.

So a lot of innovation and you will see us continue to do that the other things. We will announce today, is again when Steve talked about having an open environment in the commercial space, you will see us announce a very, very, innovative user interface that allows us to have a common user experience across multiple eco systems. We call it Stage and it's in the front end it's a UI that allows you to bring your content forward across, like I said, multiple eco systems. But on the back end it also has a sync and share capabilities that allows you to access your content and move your content across multiple devices from your 4 inch screen to your 7 inch screen potentially to you all in one in your kitchen, where you might want to have all the family gather around and look at the pictures that a bunch of folks took in the course of the day.

So we are innovating from the hardware side. We are innovating from an R & D perspective as well as form factor with Duo. And we are also starting to innovate on the software side where we have the ability to bring in an open systems approach to the consumer.

Steve Felice, Dell:

And while these are the hot topics today, we still should talk about the other core products that we are announcing today and the products that are really deciding a lot of success right now for us, which is the all in one desktop that has the stage interface on it that Michael talked about. The re-launching of the whole XPS brand that we started over the last few months, we have really some, you know, if you have a chance to go to any of the Dell suites or the press conference or any of that you'll see some tremendous capability in multimedia audio video experiences that are far superior. 3D experiences that we've got capability that will talk about with gaming where you will have wireless gaming to your TV with virtually no latency so you will be able to sit in your living room with your Alienware product have it on your TV for video and sound and you will not see any delay in tremendous gaming in 3D. So there is a lot of great products out there beyond tablets and smart phones that derive a lot of profitability

for Dell. And I think you are going to hear over the next few days on us being in a very excellent position in what is really the mainstream part of the market.

Mark Moskowitz, J.P. Morgan:

As a follow up to the commentary around the 7 inch tablet, could you talk Michael about the philosophical or technology considerations in terms of why 7 inch versus 10? And I ask this because it does seem that Verizon is having trouble pushing Samsung Galaxy, they had some nice out-of-the-gate momentum but now they're having to offer a lot of goodies to keep driving demand.

Michael Tatelman, Dell:

Like I said, it's early on I mean we're not exactly sure what the use cases are what the application cases are for people on these tablets. And, you know, the developer communities are still kind of young and everybody talks about their apps stores. But there is a lot of apps out there that aren't that very useful and some apps that are. So, I think that platforms will evolve. I'm not going to call a winner on 7 or 10. We are going to do both.

And the portability of the 7 is interesting to me. It's the same size as a writer of paperback book so as far as the kinds of applications that you do with something in your hand versus something like this. You know last night I was out with some folks and one of the woman I was with said, "Boy this is just so easy to throw in my bag versus a 10 inch that isn't right?"

And you know again it's very, very, different as you go around the world. Don't forget a lot of this is only taking place in the U.S. so far and I've never been able to really explain the 14 versus 15 phenomenon on notebooks in China. For years we couldn't sell 15 inch notebook in China when it's the most popular size in all of the rest of the world. And in Germany of course it's 17. So smaller form factors, smaller people. In some places it's a big world. As I said, it's early on. Looking at Verizon and Galaxy might not be the only proof point as to what this thing may look like over the next 12 to 24 months.

Mark Moskowitz, J.P. Morgan:

Ok, great well let's open up to the investor audience for questions.

(Inaudible question)

Dell:

Great question. I think there is places where we still need to optimize the footprint. There are places where we are not, I mean if you look at China, we have grown out into- I'm not going to be accurate so I'm not going to give you a number but- thousands of cities. Down into tier 4, 5 and 6 cities I think there's still some more opportunity to grow from a pure coverage perspective there. I think there's opportunity certainly in Eastern Europe and Southeast Asia and Latin America where I think we can grow the foot print in some other areas.

I think we have achieved the coverage that we need and we really need to optimize distribution capability and optimize that channel and then the other channels that we have and really understand the synergies between our direct business and the retail business. So I think that, you know, we will still see growth. I think that it's so variant by market that I don't really want to put a number on it. But I'd say that there is still an opportunity for probably another 30 percent or so. After that I mean some folks have 120,000 - 130,000 I think that's a pretty long tail and there are other ways to manage and handle those consumers.

For example, in India we have a program that we have internally dubbed the long tail program and it's basically thousands of you folks. It's basically the Avon model. They are out there and they get a commission for helping people buy computers online. We are able to get out into small villages, it's an online subscription based thing where you can go online and register and we provide kind of a micro business opportunity for individuals. Same thing in college campuses where there are campus reps versus campus stores, our ability to leverage Dell.com as a channel when you have people on a campus. I'm not saying it's just right yet. There are areas for growth and there are areas for optimization but we are getting pretty close.

(Inaudible question)

Dell:

We do that today in a limited way in the United States. But in other places, like China for example, we have thousands of people; so I think you will see more of that. I think we have a ways to grow in fact our industry has a ways to go in the way we merchandize and support the consumer at point of presence in retail it's not the most elegant solution there's still a sea of computers out there with not lot of great merchandizing explaining what they do so I think that's a challenge that the industry faces and it's a big focus of mine actually and we are going to start doing some work on that this year.

(Inaudible question)

Dell:

It will have a competitive non subsidized price below 500, well below, and it will have a very competitive very competitive subsidized price with the data plan which I can't announce because it's not my price.

(Inaudible question)

Dell:

Well we have seen continued favorability in component pricing and it has helped us. Personally I think there are a lot of things going on within our company. And so I think maybe people think that it helps us more than it does. And, you know, you see all these reports and they say, "well are the margins going to slip back into the seventeen's?" And, we don't think so because we have other things going on.

We have our enterprise mix improving dramatically. We have this whole shift up like we've talked about in our consumer business and our SMB business where we are selling a better portfolio of products. So we feel pretty good about our ability to sustain some healthier margins than you've see in the past from Dell.

As far as trends in components, I think that component favorability will begin to ease up as these companies sometimes they get below their cash cost positioned they have no choice but to get back to flushing inventory and raising prices. So we'll see some ebb and flow in that. We don't have a crystal ball exactly how that will play itself out. But I don't think we'll see the same kind of favorability that we saw on the back half of the year. Next year but we still feel pretty good about the component environment and our supply position, and so I think we are feeling good about the margin position of the company.

(Inaudible question)

Dell:

We do that all the time we have a very big group of people that are component experts and are looking at those costs curves and making those kinds of decisions and we make long term buy and portfolio plays on a regular basis so we will continue doing that normal process.

Mark Moskowitz, J.P. Morgan:

I guess we are put of time Steve, Michael, thank you again for participation.

Steve Felice, Dell:

Thank you

Michael Tatelman, Dell:

Thank you

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