

**DellShares**  
**FY13 Q2 Earnings vLog with**  
**Rob Williams, Brian Gladden & Steve Schuckenbrock**  
**Tuesday, August 21, 2012**

**ROB WILLIAMS:** Hi. Thanks for joining us. I'm Rob Williams. With me is Brian Gladden.

**BRIAN GLADDEN:** How are you doing, Rob?

**ROB WILLIAMS:** Brian, thanks for joining us.

We also have Steve Schuckenbrock, who's joining us from our Plano global headquarters for Dell Services, so going to have Steve provide some perspective on the services business, which will be really helpful for us.

**BRIAN GLADDEN:** Great.

**ROB WILLIAMS:** Brian, let's get started. Give us your perspective on the quarter, particularly as it relates to how we're doing relative to the strategy that we've articulated and laid out.

**BRIAN GLADDEN:** Yeah, look, I think there's some really good proof points. You know, we had strong growth on the enterprise solutions and services side of the business. We saw servers and networking perform very, very well. Steve will talk about it but the services business was solid, good growth there, some good signings, and we've seen good profitability. I think so that part of the business clearly performed as we talked about in things like the analyst meeting with the growth projections we have there. That's an important part of the strategy, and I think we saw some good success there.

**ROB WILLIAMS:** There were a couple areas that came in below where we would have wanted them, specifically our U.S. consumer -- our global consumer business rather, and also our client business, which was really notebooks and the desktop business. Could you address that?

**BRIAN GLADDEN:** Well, I think when you take a step back, we managed the P&L pretty well. In those spaces even where we saw declining revenue I would say client performance in general a little bit disappointing for us, and saw probably more deterioration than we expected in terms of demand in that environment.

And one of the things we're challenged with a bit is our strategies focused on mid and high price, high value segments within that space. The reality is that's some of the slower growth areas of the business, and we saw -- as a result we saw more revenue declines than we expected in the business.

Now, that said, I think we still feel good about our strategy, we feel good about our position, and those are important parts of the business that are still very profitable, held gross margins

well, executed well on cost, and we have more to do there, and we expect to continue to see progress even though the market's a bit tougher.

**ROB WILLIAMS:** Right, right. No, that's good.

Steve, your business has expanded gross margins now six quarters in a row, good solid performance across all of your major business units within services. Could you talk a little bit about the performance of the business in the current quarter, and also about some of the initiatives that you have in place and that you've undertaken to improve your profitability?

**STEVE SCHUCKENBROCK:** Yeah, thanks, Rob.

Look, our profit expansion is pretty exciting to see. It's materializing across all of our lines of business, which I think speaks to a real determination around cost, improvement of our delivery efficiency, and rigorous enforcement of our pricing disciplines across every aspect of our business.

We continue to see solid results across our growth as well. We're up 3 percent on a year on year basis to \$2.1 billion. Our support and deployment business is particularly strong, up 7 percent, really driven by pro support attach, custom factory integration, and deployment.

Infrastructure and cloud computing and security are up 2 percent year on year, with security leading the way, up 35 percent. It's exciting to see not only our security business growing but real traction beginning to get underway in the cloud business.

Our applications and BPO revenue was down 7 percent year on year. That's mostly due to some short term contract anomalies and we're not too concerned about any of this in the longer term. We're making good progress and we're positioning this business for profitable growth, and as you'll see or you've seen really nice new contract signings in this space.

**ROB WILLIAMS:** Great, thanks, Steve. Could you provide some perspective on the current demand and competitive environment, and highlight a couple of the key wins that you guys had in the quarter?

**STEVE SCHUCKENBROCK:** Sure. You know, it's always fun to talk about new customers and wins. Over the trailing 12 months we signed \$1.8 billion of new services business. It's up 2 percent year on year.

But I think when you did underneath the performance in the first half and particularly the second quarter you get really excited about the nature of those signings. Two-thirds of those signings were focused on our infrastructure and cloud and security business, while a full third was in our applications and BPO business. That's the biggest quarter we've ever had in applications and BPO, and a real indication of the progress of that business.

Many of the new signings are outside of our traditional areas of strength such as health care, and a very high percentage of our signings in Q2 were with new Dell Services customers, customers we had no relationship with whatsoever. In fact, that made up 88 percent of the business.

The quarter was not heavily slated by any one big deal. In fact, there were many deals that underpinned the signings this quarter.

When you think about a quarter like this and you realize that it's broad based in terms of new customers, multiple different industries, multiple different offerings, and it's supported by a support services business that grew by 7 percent, it took our backlog up to \$16.3 billion.

You know, with respect to our support and deployment business clearly the decline in end user computing does impact our support and deployment growth. However, it's really important for everybody to understand that approximately 40 percent of that business relates to the enterprise products and solutions such as servers, storage, networking, and now increasingly software. And so the diversity of that portfolio certainly brings some financial strength to the overall execution.

**ROB WILLIAMS:** Steve, lots of discussion about the changing dynamics in the industry, and clearly you're positioning the business to be competitive in a new services environment. Talk to us about some of the innovation that you guys are putting in place in the services business, and how you expect that to help you compete as we go forward.

**STEVE SCHUCKENBROCK:** Our primary mission is to help our customers get the maximum utilization and value out of the investments they make with Dell solutions, whether it's in the client space or in the data center. We're also helping customers who may be on old proprietary type architectures migrate from those systems to new modern technologies like cloud and X86. Rob, that's the mission that we really have as a company in serving our customers.

From a services perspective there's certainly a lot of great services our customers want to buy when they buy hardware. That's services like pro support but also deployment and configuration of those machines to their specific needs so that they get exactly the solution they need to the problem they're trying to solve. That support business is now underpinned with great innovation, including proactive management, including multivendor support, pro support for data center which allows us to manage the entire data center on behalf of the customer. Really a great set of offerings that are getting traction.

If you look at our infrastructure and cloud computing business, we now have hundreds of customers on our public cloud and we've helped many customers there from a consultative perspective as they begin to embrace the step from virtualization into private cloud execution.

We've also set up private clouds and managed them on behalf of our customers in their data centers, as well as in our own data centers.

When you look at the applications and BPO business, while they go to market from a vertical perspective and certainly serve across multiple different industries, we've developed horizontal offerings in testing, in mobility, and in the really, really important space of applications modernization where we help customers reanalyze their entire install base of applications, help them drive optimization of those resources, eliminate and consolidate unnecessary code, and then modernize that entire code base to modern architectures like cloud and X86.

Our security business really underpins all of this. So, when you think about security, we now monitor over 30 billion security events per day on behalf of our customers, and we through that large network have the ability to see criminal or malicious activity on the very edges of the network, and then protect our entire customer base from those events occurring in their business.

It's really great and exciting to be able to innovate within the services business and use that innovation to drive differentiation and better execution in the marketplace, and help our customers get the most bang for their IT buck.

**ROB WILLIAMS:** Great, Steve, thanks.

Brian, let's wrap it up with your view on the third quarter and also the update on our full year EPS outlook.

**BRIAN GLADDEN:** Well, as we talked about in June, we launched the dividend this quarter. That will be something that we do later in the quarter. But 8 cents a quarter is the target and what we talked about in the analyst meeting.

As we look at the outlook, you know, I would say there's a couple pieces. Clearly, we expect to see continued success and growth in the enterprise elements of the business where we're making investments. So, solid growth, solid profitability, that's part of the strategy we'll continue.

I think when you look at the environment we're going to be somewhat realistic around what we see in the PC and client business. That's not going to be a great -- we don't see real catalyst for some growth in the second half there. So, I think being somewhat realistic around that view is important.

So, as we look at revenue for the third quarter, we would expect revenue to sequentially be down 2 to 5 percent, just to be thoughtful I think around that outlook, and as you look at the total year we're really expecting earnings per share now over \$1.70 for the year.

So, that's how we're thinking about it. I think again it's a combination of solid execution on the enterprise side and some good dynamics there, but also a bit of a realistic view around what's going on in the PC business right now. As you see Windows 8 and some of the big things happening over the second half, we expect that to have a positive impact on the business, but that's probably later as you head through the fourth quarter and into next year.

**ROB WILLIAMS:** Yeah, that's when you think about Windows 8 obviously it's an exciting new operating system and a new way to interact with your computing devices, but with the launch late in October product cycle really is in Q4 and then really into next year.

**BRIAN GLADDEN:** Yeah, especially for commercial customers clearly that will be more into next year dynamics for us.

**ROB WILLIAMS:** Yeah, exactly, which is a sweet spot for Dell.

The \$1.70 includes 2 to 3 cents expected impact from Quest.

**BRIAN GLADDEN:** It does. So, we would expect Quest will close hopefully in the latter part of the third quarter, and as we see that rolling through -- we've shared some of that data in the web deck for those that want to see it.

**ROB WILLIAMS:** Good, good.

Appreciate it, Brian, and, of course, thanks to Steve for joining us from Plano.

And I would also remind you that it's important that you also review the press release and all the other related materials that go along with the earnings call and the earnings announcement. So, please take a look at that and we appreciate you joining us here on Dell Shares, and look forward to your questions and comments. Thanks a lot.

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