



# Dell Q1 FY07 Results

May 18, 2006



- Statements in this presentation and the accompanying press release and conference call that relate to future results and events (including statements about Dell's anticipated financial and operating performance) are forward-looking statements based on Dell's current expectations.
- Actual results in future periods could differ materially from those projected in the forward-looking statements because of a number of risks and uncertainties, including:
  - General economic, business and industry conditions
  - The level and intensity of competition in the technology industry and the pricing pressures that have resulted
  - Local economic and labor conditions, political instability, unexpected regulatory changes, trade protection measures, tax laws and fluctuations in foreign currency exchange rates
  - The ability to accurately predict product, customer and geographic sales mix
  - The ability to timely and effectively manage periodic product transitions
  - Reliance on third-party suppliers for product components, including dependence on several single-source supplier relationships
  - The ability to effectively manage operating costs
  - The ability to attract and retain qualified personnel
  - The level of demand for the products and services Dell offers
  - The ability to manage inventory levels to minimize excess inventory, declining inventory values and obsolescence
  - The effect of armed hostilities, terrorism, natural disasters and public health issues on the global economy generally, on the level of demand for Dell's products and services and on Dell's ability to manage its supply and delivery logistics in such an environment.
- More information about these and other factors affecting Dell's business and prospects is contained in Dell's periodic filings with the Securities and Exchange Commission.
- Dell's CCC operating metrics and free cash flow are considered Non-GAAP financial measures under Regulation G, and should be read in conjunction with the accompanying footnote on slide 9 and the reconciliation on the bottom of slide 10.

## International and enterprise business drove growth in the quarter

- Revenues of \$14.2B, an increase of 6%. EPS of \$0.33<sup>1</sup>, which includes \$0.03 for stock-based compensation, declined 11%
- Revenue outside the U.S. increased 12% and contributed a record 44% of total revenues
- Shipped almost 10 million units, up 13% -- #1 share worldwide
  - EMEA units were up 18% and share grew to 14%, outpacing the market
  - APJ units up 30% or approximately 2 times the market and added 1.2% share to 10%
- Progress on growth initiatives
  - Total Enterprise revenue up 10% and we launched new Dell|EMC and PowerVault storage systems
  - Enhanced Services revenue grew 28% to \$1.4B
- \$1.0B in cash flow from operations
- Invested \$1.7B to repurchase almost 58 million shares and reduced share count 8% Y/Y

<sup>1</sup> Results for the three months ended May 5, 2006 include stock-based compensation expense of \$77 million, net of tax or \$0.03 per share, due to the implementation of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payments, ("SFAS 123(R)"). Dell implemented SFAS 123(R) using the modified prospective method. Accordingly, net income prior to fiscal 2007 includes only compensation expense related to restricted stock awards, but does not include stock-based compensation expense for employee stock options or the purchase discount under Dell's employee stock purchase plan.

- **Competitive environment is more intense than we had planned for or acknowledged**
- **In the past, we tried to grow and increase margins which created a margin umbrella for competitors and stalled our growth**
- **We have taken action to reignite growth and reassert the unique value of the Direct Model:**
  - Reestablish price position
  - Investing in customer sales, service and support
  - Investing in product and technology leadership
  - Improving cost structure and productivity
- **Significant headroom for growth globally**

# Investing in Customer Service, Sales and Support

- **Spending >\$100M to regain customer experience leadership**
- **Hired >2000 sales/support people and retraining >5000**
- **Expanded warranties, scope of services offered and reduced call queue times by >50%**
- **Adding/expanding ten call centers including Ottawa, Manila, Oklahoma City and Nashville**
- **Introducing DellConnect for remote diagnostics and expanding e-Support services -- 400,000 customers in pilot with 95% customer satisfaction**

# Investing in Product and Technology Leadership

- **Renewed focus on defining, designing and delivering breakthrough innovative products**
- **Launching broadest and highest quality product line**
  - 9th generation servers featuring Intel Woodcrest
  - AMD Opteron processors in multi-processor servers by the end of this year
  - New PowerVault and Dell/EMC storage portfolio
  - Refreshed notebook line
  - Expanded printer line
- **Expanding Enhanced Services capability – now on a \$5.6B run-rate**

# Improving Cost Structure and Productivity

- Targeted at bringing better value to our customers and improving execution
- Accelerating \$3B of cost improvements this year including structural material, component, transformation and warranty costs
- Merging leadership of contact centers to improve efficiency and quality of support
- Revamping advertising with an emphasis on value over price

# Headroom for Global Growth

- **95% of the world's population is outside the U.S., accounting for 70% of the global IT market – Dell has just a 12% share**
- **Dell model is uniquely positioned to provide broad product lines and enhanced services on a global scale**
- **Investing globally including the U.S. and high growth countries like China, India, Germany, Brazil**
- **Direct model has been embraced in every country we have launched**

# Q1 FY07 Financial Highlights

- Delivered \$14.2 billion of revenue and \$0.33 of EPS
- Spent \$1.7B to repurchase almost 58 million shares

## LIQUIDITY

- \$1.0 billion cash flow from operations
- \$11.1 billion in cash and investments
- CCC -42 days<sup>1</sup>

## GROWTH

- Units up 13%
- Revenue up 6%

## PROFITABILITY

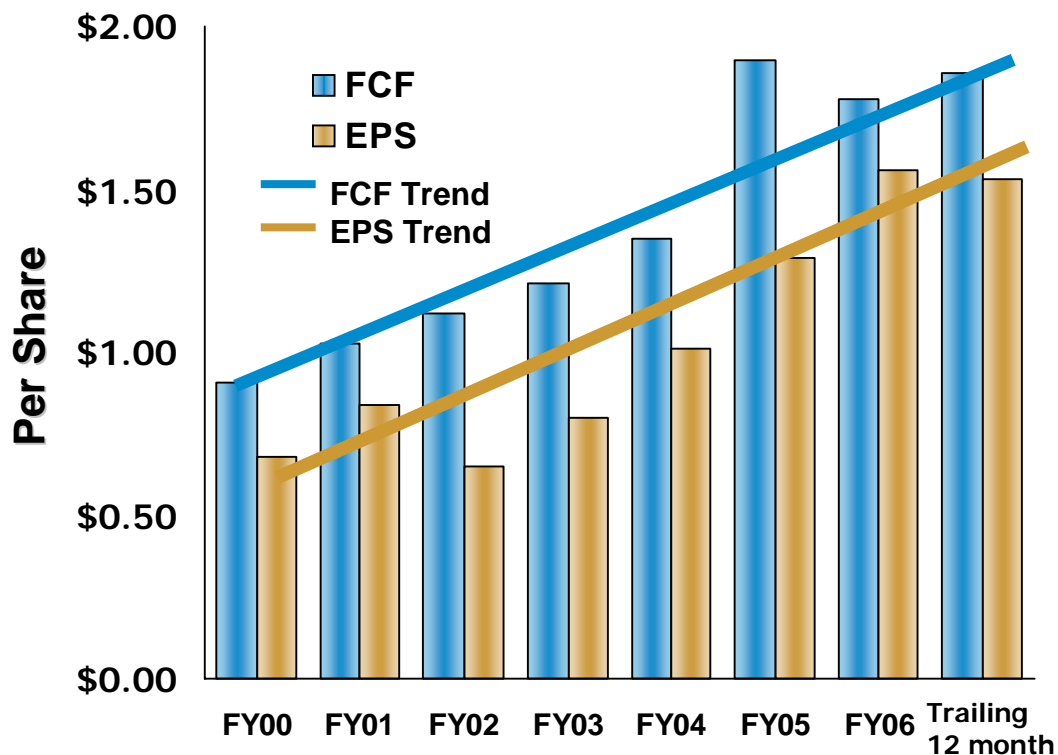
- Gross margin = 17.4%
- OPEX percent of revenue = 10.7%
- Operating margin = 6.7%
- Return on total capital = 59%

1. See also the accompanying press release dated May 18, 2006, CCC would have been -45 days excluding the effect of in-transit customer shipments in DSO

Note: Growth rates Y/Y unless otherwise noted

# Industry Leading Returns

## Free Cash Flow & EPS Trends



- Cash flows
  - CFOps of \$1.0B
  - FCF of \$0.9B
  - CFOps/share of \$0.44 & FCF/share of \$0.37
- Strategy is to consistently grow FCF/share and EPS faster than Revenue
- FCF/share up 26% Y/Y
- Return on total capital 59%

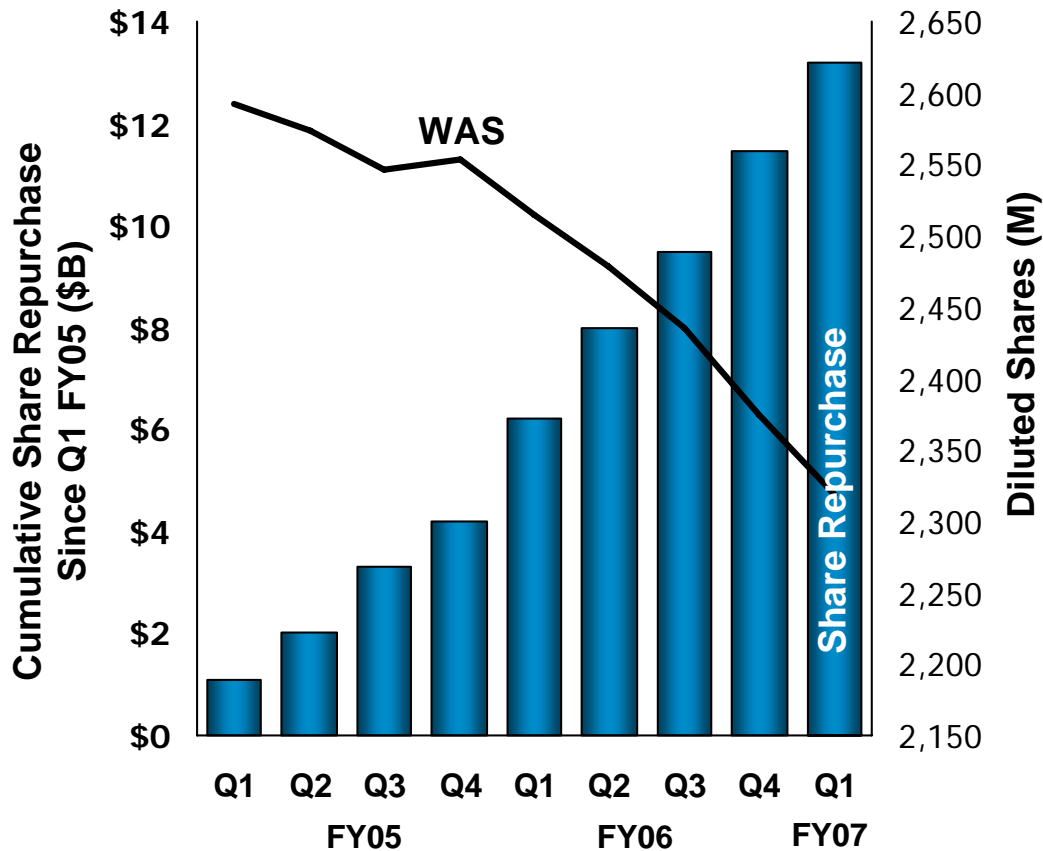
**Cash Flow from Operations**  
 Less: Tax ben of stock-based comp  
 Less: Capital Expenditures  
 Add: Financing Receivables  
**Free Cash Flow**

	Q1 FY07	Trailing 12 Mths
Cash Flow from Operations	\$ 1,022	\$ 4,671
Less: Tax ben of stock-based comp	\$ (3)	\$ (231)
Less: Capital Expenditures	\$ (184)	\$ (770)
Add: Financing Receivables	\$ 19	\$ 802
<b>Free Cash Flow</b>	<b>\$ 854</b>	<b>\$ 4,472</b>

# Share Repurchase Program Continues to be Accretive

- Dell reduced share count 11% over last two years

## Share Buyback



- Spent \$1.7 billion to repurchase almost 58 million shares
- Repurchased 212 million shares in last 12 months
  - Decreased Q1 weighted average shares 8% year-over-year
- Repurchased 3 times as many shares as were issued in options
- Plan to spend at least \$1.0 billion in Q2

# Q1 Product Summary

Product	Revenue	Revenue Growth		Unit Growth	
	\$B	Y/Y	Q/Q	Y/Y	Q/Q
Desktop PCs	5.1	-3%	-9%	4%	-4%
Mobility	3.7	12%	-4%	36%	0%
Servers	1.3	3%	-7%	8%	0%
Storage	0.5	12%	-16%		
Enhanced Services	1.4	28%	2%		
S&P	2.2	11%	-6%		
<b>TOTAL</b>	<b>\$14.2</b>	<b>6%</b>	<b>-6%</b>	<b>13%</b>	<b>-3%</b>

“Desktop PCs” includes desktops and desktop workstations.

“Mobility” includes notebooks, mobile workstations, Axim handhelds, and Dell MP3 Players.

“Servers” includes servers and networking hardware.

“Storage” includes all DAS, NAS, SAN and Dell tape external storage devices.

“Enhanced Services” includes assessment, design and Implementation, deployment, asset recovery and recycling, training, enterprise support, client support and managed lifecycle services.

“S&P” includes imaging & printing, TVs and displays, software, PC components and peripherals.

Note: Growth is calculated on underlying data

# Q1 FY07 Product Summary: Growth in Servers & Storage

Total enterprise including servers, storage, services, software and peripherals grew 10%



PowerVault™ MD1000



Dell/EMC CX3-  
20, 40, 80



Dell/EMC AX150  
and AX150i

## Storage

- Revenues of \$ .5B up 12%
- **New** Dell/EMC CX Ultra – Build to order mid range 2X capacity & performance with 4GB architecture
- **New** Dell/EMC AX next generation of the industry's first affordable, easy-to-install SAN
- **New** PowerVault MD1000 Double the storage capacity or up to 4X > bandwidth

## PowerEdge Servers



PowerEdge 1855

## Servers

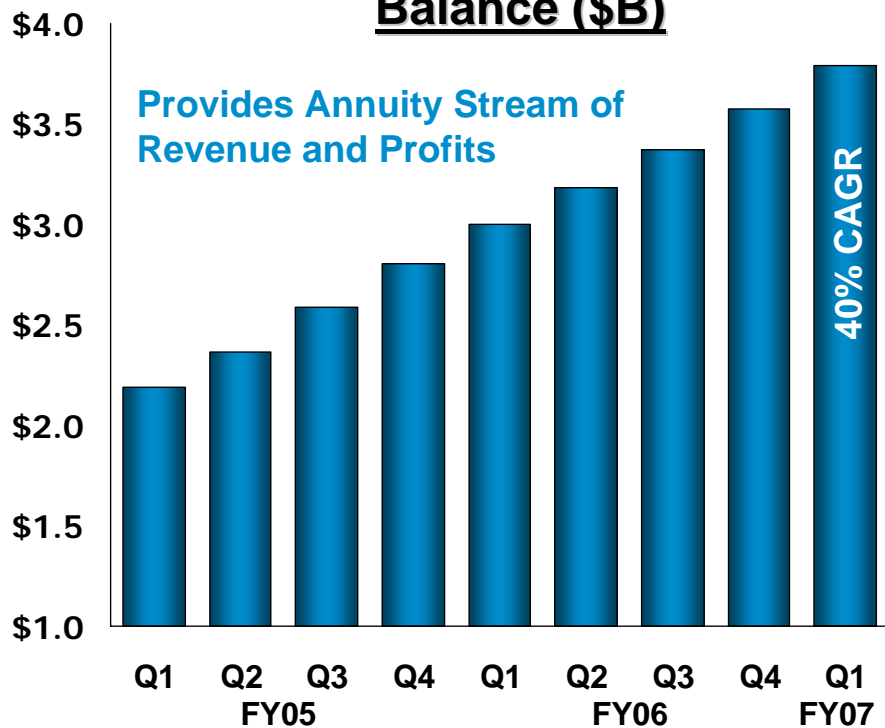


PowerEdge 2800

- Revenue of \$ 1.3B, up 3%
- WW server units grew 8%
- **Coming soon** 9th generation servers based on Intel Woodcrest technology due in Q2
- Received multiple server awards in Q1

# Q1 FY07 Product Summary: Enhanced Services are Growing Rapidly

## Deferred Services Revenue<sup>1</sup> Balance (\$B)



- Revenue up 28% to \$1.4B
  - Grew 38% outside of the Americas
  - Over \$5.6B annualized run-rate
  - Professional, Managed & Deployment Services up 38%
- 5 year contract with Boeing to manage thousands of printers
- \$40M managed services agreement to manage 10K seats and print services for Unilever
- Rated #1 in TBR overall service and support for 21 of 22 quarters
- Named Ten Best Web Support site by The Association of Support Professionals



Ranked #1 in CIO survey for providing impeccable customer service



Rated #1 in overall service and support



Voted 'STAR' for Mission Critical Support



The Year's Ten Best Web Support Sites  
2006 Ten Best Web Support Sites



Best International Web Support Site

<sup>1</sup> Enhanced Services includes: Assessment, Design and Implementation, Deployment, Asset Recovery and Recycling, Training, Enterprise Support, Client Support and Managed Lifecycle Services.  
[www.dell.com/investor](http://www.dell.com/investor)

# Q1 FY07 Product Summary: Software & Peripherals

S&P revenue grew 11%, driven by flat panel displays and imaging



26" HD-Built in LCD TV



UltraSharp 1707



Laser 1710



Laser 1110



3100cn



## Digital Televisions and Monitors

- Ranked top worldwide LCD monitor vendor, almost double the next closest vendor – won numerous awards
- **New** UltraSharp 2007 for gamers & professionals
- **New** 26" HD-Built in LCD TV
- **New** 1707FP, 1907FP and 2007FP

## Imaging and Printing

- Imaging and printing revenues up 10%
- Focusing on color lasers and AIO inkjets where we have 14% & 11% U.S. share, respectively
- Color Laser 3100cn chosen as PC World Best Buy & Editor's Choice in Europe
- Laser 1710 awarded Certificate of Reliability – Buyer's Lab
- **New** Laser 1110 and Color Laser 3010cn

# Q1 FY07 Product Summary: Strong Growth in Mobility

- Revenue of \$3.7B, up 12% on 36% unit growth
- Increased #1 Worldwide Notebook share 0.5% to 17%
- Refreshed entire line of notebooks, added Intel Core Duo technology and won numerous awards
  - XPS M1710: Gaming and high performance
  - Precision M90: Mobile workstation
  - Latitude D620: Connectivity & security
  - Inspiron 9400: Intel Core Duo



April 18, 2006  
Dell XPS M1710

**XPS M1710**



**Inspiron 9400**



**Latitude D620**



**Precision M90**

# Q1 FY07 Product Summary: Leading Edge Technology in Desktop PCs

- With continuing shift to mobility, Desktop revenue declined 3% to \$5.1B, units up 4%
- #1 in Worldwide and U.S. share
- Expanded use of Intel Dual Core processors
- **New** OptiPlex 210L for business value
- Optiplex and Dimension Desktops won several awards
- For 2nd year in a row, Dell received Frost & Sullivan CEO Choice Award for the most reliable desktop manufacturer in North America and Europe



OptiPlex 210L



OptiPlex GX620



Dimension E310



Dimension E510



# Q1 FY07 Regional Summary

REGION	Revenue	Op Inc	Revenue Growth		Op Inc Growth		Unit Growth	
	\$ M	\$ M	Y/Y	Q/Q	Y/Y	Q/Q	Y/Y	Q/Q
Americas <sup>1</sup>	8,927	742	4%	-8%	-8%	-14%	7%	-7%
EMEA	3,357	183	6%	-9%	-23%	-27%	18%	-2%
APAC/Japan	1,932	136	17%	11%	2%	5%	30%	18%
Stock-based compensation expense <sup>2</sup>	-	-112	-	-	NA	NA	-	-
<b>TOTAL</b>	<b>14,216</b>	<b>949</b>	<b>6%</b>	<b>-6%</b>	<b>-19%</b>	<b>-24%</b>	<b>13%</b>	<b>-3%</b>

<sup>1</sup> Americas results include consolidation of DFS

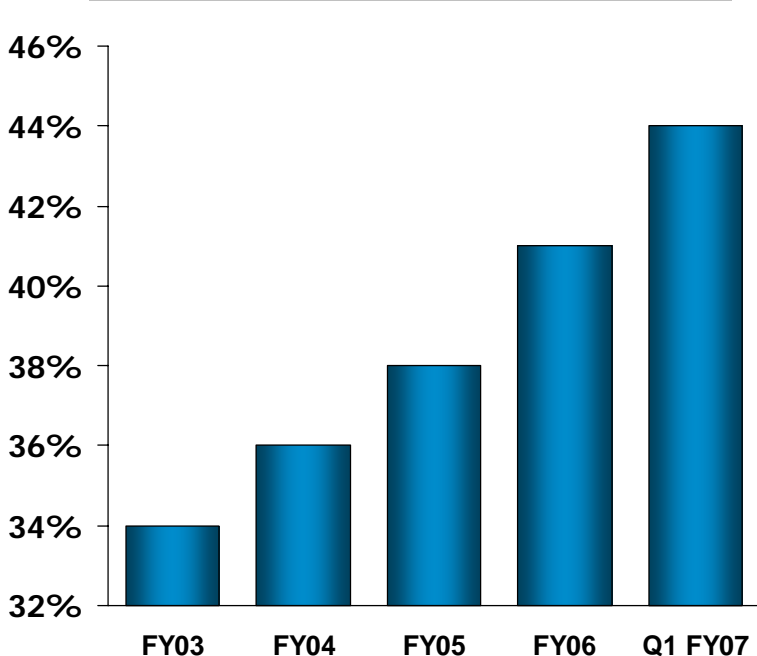
<sup>2</sup> Stock-based compensation expense is not allocated to the regions for management reporting purposes

Note: Growth is calculated on underlying data

# Q1 FY07 Geographic Expansion

Revenue outside the U.S. was up 12% and contributed a record 44% of total revenues

## Revenue Outside of the U.S.



- **Europe, Middle East & Africa**

- Units were up 18% and revenues up 6% led by Germany & emerging countries.
- Gained 40 bps share to 14%
- Germany achieved #3 position, up from #5 in Q4
- Increased server share 60 bps to 20.1%

- **Asia Pacific & Japan**

- Units were up 30% and revenues up 17%. Share grew 1.2% to 10%
- Korea, India & China revenue grew 54%, 40% & 29%
- Japan grew 5 times the industry & gained 2.2% share

- **Americas International**

- Revenues up 26%, server share now 33% in Latin Am.

- **U.S. maintained #1 position with 32% share**

Note: Growth rates Y/Y unless otherwise noted

- Ending the practice of providing specific quarterly guidance — will move to a focus on long-term drivers to align with how we manage the business
- At our September Analyst Meeting we will discuss the qualitative and quantitative data most relevant to focus on
- Suggest Q2 model P&L be modeled similar to Q1
- Q2 Share repurchase of at least \$1.0 billion
- Plan to issue up to \$1B of commercial paper. In the near term, these proceeds will be used to fund Dell Financial Services\*

\* See Dell's Form 8-K filed May 18, 2006

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additional information

