

# DELL Q2 FY09 PERFORMANCE REVIEW



Michael Dell  
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# DELL Q2 FY09 EARNINGS SPECIAL NOTE

Statements in this presentation that relate to future results and events (including statements about our expected future financial and operating performance) are forward-looking statements based on our current expectations. Actual results and events 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; our ability to reestablish a cost advantage over our competitors; local economic and labor conditions, political instability, unexpected regulatory changes, trade protection measures, tax laws, copyright levies and fluctuations in foreign currency exchange rates; our ability to accurately predict product, customer and geographic sales mix and seasonal sales trends; information technology and manufacturing infrastructure failures; our ability to effectively manage periodic product transitions; disruptions in component or product availability; our ability to maintain a strong internal control environment; our reliance on third-party suppliers for quality product components, including reliance on several single-source or limited-source suppliers; our ability to access the capital markets; unfavorable results of legal proceeding could harm our business and result in substantial costs; our acquisition of other companies; our ability to properly manage the distribution of our products and services; our cost-cutting measures; effective hedging of our exposure to fluctuations in foreign currency exchange rates and interest rates; obtaining licenses to intellectual property developed by others on commercially reasonable and competitive terms; our ability to attract, retain and motivate key personnel; loss of government contracts; expiration of tax holidays or favorable tax rate structures; changing environmental laws; and the effect of armed hostilities, terrorism, natural disasters and public health issues. For a discussion of those and other factors affecting the company's business and prospects, see Dell's periodic filings with the Securities and Exchange Commission.



DELL Q2 FY09  
EARNINGS REVIEW

Brian Gladden  
SVP and CFO

# DELL: MY FIRST IMPRESSIONS

## Fundamental Advantages

- Product portfolio well aligned with opportunities in technology
- Broad-based share presence worldwide = more customers and ability to expand products and solutions we sell to them
- Superior cash generation ability
- Engaged and experienced leadership team

## Opportunities for Improvement

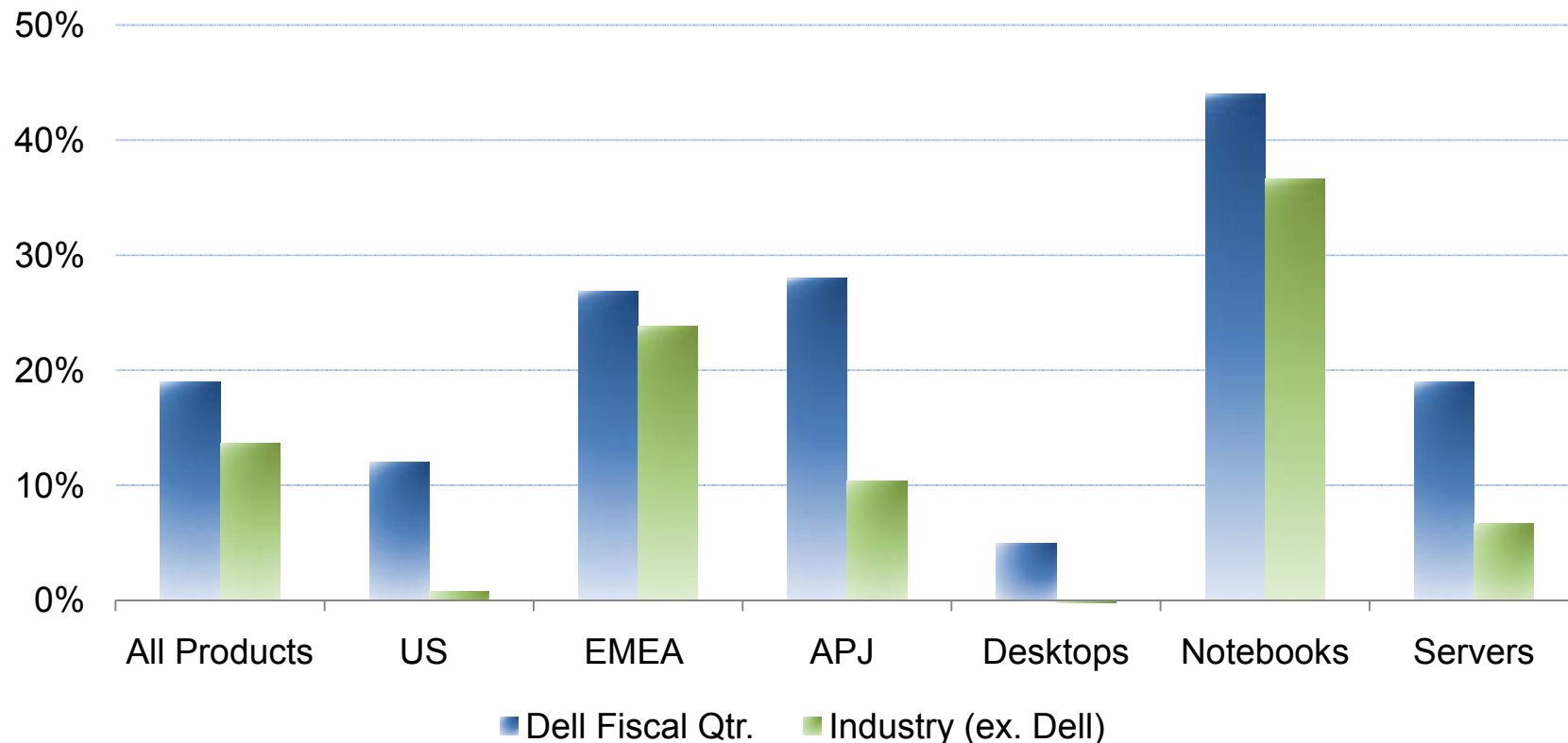
- Improve global competitiveness including total cost structure
- Improve consistency of execution across all aspects of business
- Improve return on capital



# DELL GROWTH PREMIUM

- Revenue grew 11%. Units up 19% or 1.4 times the industry – expanded footprint and more customers translates to larger solutions opportunity
- Dell grew faster than the industry in all major product categories and regions gaining one full point of share globally

**Dell Growth Rate vs. Industry\***



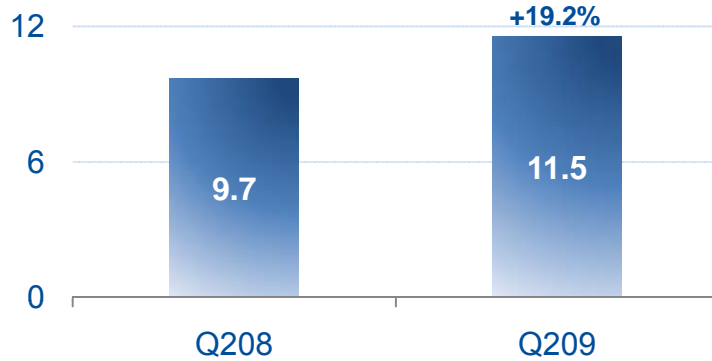
\* All comparisons are year-over-year unless otherwise noted throughout presentation



# Q2 FY09 KEY PERFORMANCE METRICS

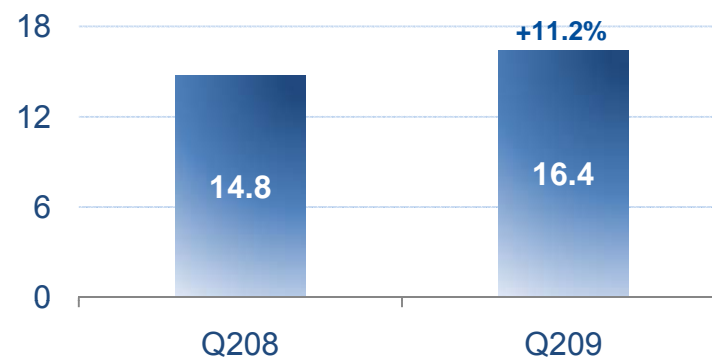
## Units

Millions



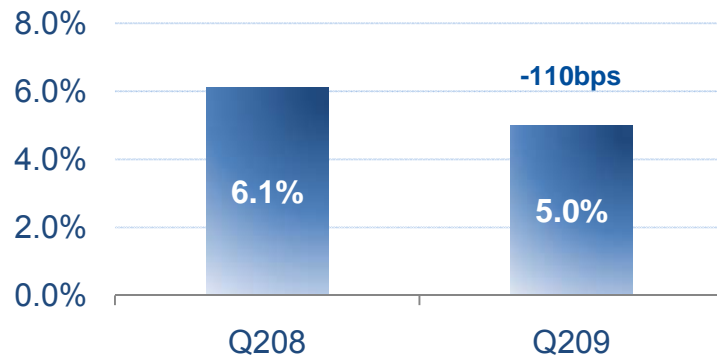
## Revenue

\$ Billions



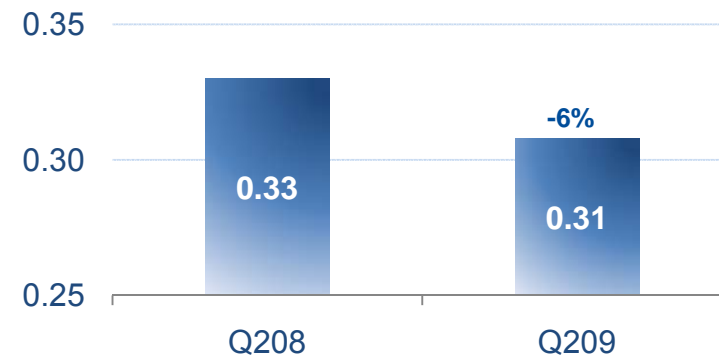
## OpInc

%



## EPS

\$



# Q2 FY09 CONSOLIDATED RESULTS

## Consolidated P&L

\$ in Millions – except Units & EPS

	Q208	Q209	Y/Y Growth
Units (thousands)	9,689	11,547	19.2%
Revenues	14,776	16,434	11.2%
Gross Margin	2,951	2,827	
<i>GM % of revenue</i>	19.9%	17.2%	-277 bps
Operating Expenses	2,049	2,008	
<i>Opex % of revenue</i>	13.8%	12.2%	-165 bps
Operating Income	902	819	
<i>OpInc % of revenue</i>	6.1%	5.0%	-112 bps
Income Before Taxes	998	837	
Income Tax	252	221	
<i>Effective Tax Rate %</i>	25.3%	26.4%	
Net Income	746	616	-17.4%
<i>NI % of revenue</i>	5.1%	3.7%	
Diluted EPS	\$0.33	\$0.31	-6%

## Dynamics

- Revenues grew 11% to \$16.4B
- Units up 19% or 1.4x industry; gained share in all major products and regions
- Operating income \$819M, or 5.0% of revenue; improved earnings over time will be driven by balance between growth and improved operating profit
- Gross margin (-120bps Q/Q) impacted by strategic pricing actions in EMEA ahead of cost improvements and retail mix shift in consumer as we expand globally
- Tax rate of 26.4%, up 290 bps Q/Q on mix shift in income to higher tax jurisdictions



# Q2 FY09 STRATEGIC PRIORITIES

## Global Consumer

- Revenue grew 28% w/ units up 53%
- Share increased 1.6pts to 9.1% overall
- Profitability was roughly breakeven, affected by expansion into retail and an \$18 million litigation expense

## Notebooks

- Revenue grew 26% w/ units up 44%
- Completely new line of Latitude and Precision laptops
- Largest product roll-out and lightest ultra-portable in company history

## Enterprise

- Increased server share by 3 pts
- Server revenue 5% w/ units up 19%, or 2.5x industry
- Storage revenue 11%
- Services revenue up 14% with “as Sold” up 18% on new ProSupport services, and deferred revenue balance up 22%
- Launched a dozen new virtualized dedicated solutions, including 12 new servers

## Small Medium Business

- Revenue up 5% w/ units up 8%
- Introduced PowerVault MD1120 in response to customer need for affordable storage that supports data-intensive applications

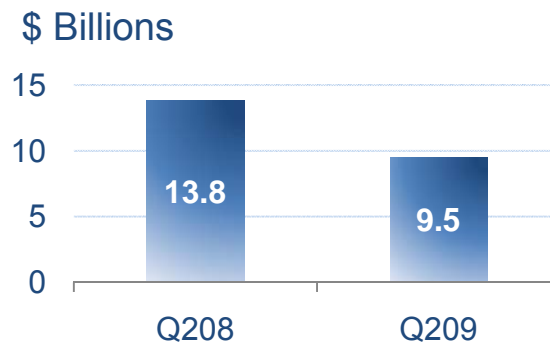
## Emerging Countries

- BRIC countries outperformed all major competitors across all product categories
- Revenue up 41% w/ units up 46%, more than 3x industry growth rate
- Dell gained 2.4pts of share
- BRIC now accounts for more than 9% of Dell revenue
- Revenues outside U.S. now at 47%

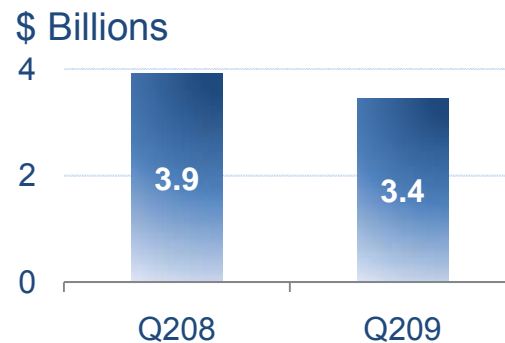


# Q2 FY09 BALANCE SHEET METRICS

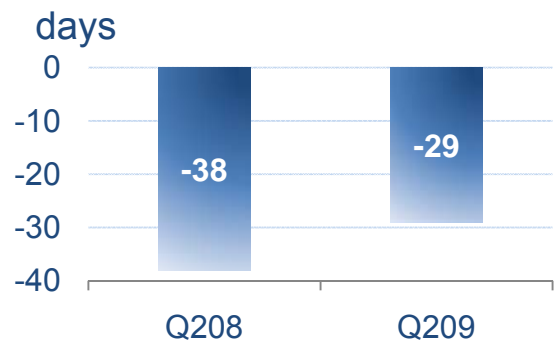
## Cash & Investments



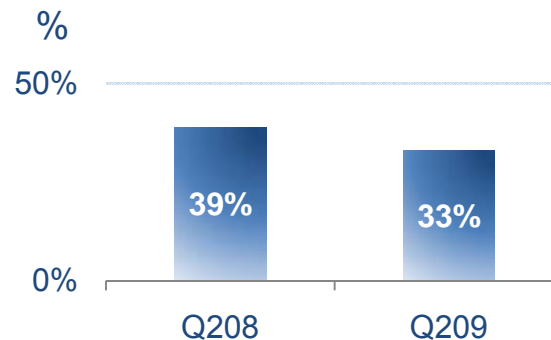
## CFO<sup>1</sup>



## Cash Conversion Cycle



## Return on Total Capital



## Dynamics

- CFO of \$1.1B and TTM<sup>2</sup> CFO was \$3.4B or \$1.61 per share
- On an annualized basis, we believe we will generate CFO in excess of net income
- Strong balance sheet - \$9.5B in cash and investments
- Spent \$1.4B to buy 60 million shares
- Weighted average shares down 11% Y/Y to 2.0B
- About \$5B remains in authorization and we expect to use a portion in 2H'08

<sup>1</sup>Cash Flow from Operations

<sup>2</sup>Trailing Twelve Months



# SEGMENTS AMERICAS COMMERCIAL

## Americas Commercial P&L

\$ in Millions

	Q208	Q308	Q408	Q109	Q209
Revenues	7,680	7,834	7,216	7,298	8,096
<i>Sequential Growth, %</i>	5.9%	2.0%	-7.9%	1.1%	10.9%
<i>Y/Y Growth, %</i>					5.4%
Operating Income	757	663	502	588	700
<i>OpInc % of revenue</i>	9.9%	8.5%	7.0%	8.1%	8.6%
<i>Sequential Growth, bps</i>	98 bps	-139 bps	-151 bps	118 bps	59 bps
<i>Y/Y Growth, bps</i>					-121 bps

## Dynamics

- Revenues were \$8.1B, up 5%. Units 7%; notebook units 12%
- #1 provider of systems in the region
- Server units grew 18% against no industry growth; gained 3 points of share in x86 space and overall share in servers is now 37.8%
- Operating income \$700M, up +~20% Q/Q, reflecting improving balance across products and regions



# SEGMENTS EMEA COMMERCIAL

## EMEA Commercial P&L

\$ in Millions

	Q208	Q308	Q408	Q109	Q209
Revenues	3,162	3,448	3,680	3,806	3,503
<i>Sequential Growth, %</i>	-4.7%	9.0%	6.7%	3.4%	-8.0%
<i>Y/Y Growth, %</i>					10.8%
Operating Income	202	211	283	221	72
<i>OpInc % of revenue</i>	6.4%	6.1%	7.7%	5.8%	2.0%
<i>Sequential Growth, bps</i>	-211 bps	-27 bps	157 bps	-188 bps	-381 bps
<i>Y/Y Growth, bps</i>					-439 bps

## Dynamics

- Revenues grew 11% to \$3.5B on 20% unit growth
- Operating income declined Y/Y and Q/Q as we took advantage of strategic growth opportunities in advance of cost improvements and we experienced an increase in deferred revenue from services. Services revenue and profit will be recognized in future periods.
- Server units grew 18%; 1.6x industry and fastest growth among top five vendors
- Mobility units up 52%
- Double digit unit growth in the U.K., France, Germany



# SEGMENTS APJ COMMERCIAL

## APJ Commercial P&L

\$ in Millions

	Q208	Q308	Q408	Q109	Q209
Revenues	1,765	1,790	1,905	2,024	2,054
<i>Sequential Growth, %</i>	3.4%	1.4%	6.4%	6.2%	1.5%
<i>Y/Y Growth, %</i>					16.4%
Operating Income	142	76	120	131	157
<i>OpInc % of revenue</i>	8.1%	4.3%	6.3%	6.5%	7.6%
<i>Sequential Growth, bps</i>	302 bps	-380 bps	204 bps	17 bps	117 bps
<i>Y/Y Growth, bps</i>					-42 bps

## Dynamics

- Revenues grew 16% to \$2.1B
- Units up 16%; 3x industry growth
- Share increased 1.7 points to 13.7%
- Operating income \$157M; up 10%
- Growth and profitability driven by a balanced mix of country, segment and product performance.
- Strengthened position as the 2<sup>nd</sup> largest provider of servers



# SEGMENTS GLOBAL CONSUMER

## Global Consumer P&L

\$ in Millions

	Q208	Q308	Q408	Q109	Q209
Revenues	2,169	2,574	3,188	2,949	2,781
Sequential Growth, %	-11.4%	18.7%	23.8%	-7.5%	-5.7%
Y/Y Growth, %					28.2%
Operating Income	5	(24)	3	35	(5)
OpInc % of revenue	0.3%	-0.9%	0.1%	1.2%	-0.2%
Sequential Growth, bps	-51 bps	-117 bps	103 bps	109 bps	-137 bps
Y/Y Growth, bps					-48 bps

## Dynamics

- Revenues grew 28% to \$2.8B
- Units up 53%. Units grew more than two times the industry driven by a better than 100% increase in notebooks
- Unit growth in U.S. up 48% and in APJ up 86%; Notebook units grew 101%
- Expanded global retail to 15,000 points of presence
- Profitability was roughly breakeven, affected by expansion of retail presence and a \$18M litigation expense



# Q2 FY09 PRODUCT SUMMARY

## Product Revenue Trends

\$ in Millions

LOB	Q208	Q308	Q408	Q109	Q209
Desktop PCs	5,017	4,754	4,860	4,700	4,928
Mobility	3,865	4,729	4,813	4,904	4,871
Servers	1,618	1,651	1,612	1,653	1,702
Storage	613	624	649	631	681
Services	1,283	1,355	1,401	1,448	1,462
S&P	2,380	2,533	2,654	2,741	2,790
<b>Total</b>	<b>14,776</b>	<b>15,646</b>	<b>15,989</b>	<b>16,077</b>	<b>16,434</b>

### Revenue Trends Q/Q

Desktop PCs	2%	-5%	2%	-3%	5%
Mobility	-4%	22%	2%	2%	-1%
Servers	2%	2%	-2%	3%	3%
Storage	12%	2%	4%	-3%	8%
Services	0%	6%	3%	3%	1%
S&P	2%	6%	5%	3%	2%
<b>Total</b>	<b>0%</b>	<b>6%</b>	<b>2%</b>	<b>1%</b>	<b>2%</b>

### Revenue Trends Y/Y

Desktop PCs	0%	-1%	2%	-5%	-2%
Mobility	1%	19%	24%	22%	26%
Servers	20%	8%	2%	4%	5%
Storage	12%	8%	2%	15%	11%
Services	2%	7%	7%	13%	14%
S&P	7%	11%	15%	17%	17%
<b>Total</b>	<b>4%</b>	<b>9%</b>	<b>10%</b>	<b>9%</b>	<b>11%</b>

## Dynamics

- **Mobility** revenue up 26% on a 44% increase in units driven by expansion in consumer and notebook platform expansion
- **Server** revenues up 5% on 19% unit growth - almost 2x rate of industry; outperformed main competitors in all major regions
- **Storage** revenues up 11%, on strength in PowerVault disk products and EqualLogic iSCSI
- **Services** revenue up 14% on an expanding portfolio while deferred services revenue grew 22% to \$5.7B
- **Software and peripherals** revenue up 17% on improving profitability



# COST AND PRODUCTIVITY INITIATIVES PROGRESS ON \$3 BILLION OBJECTIVE

- **Product Design and Pricing:**

- Design products with features customers want and value
- “Clean sheet” approach that identifies process and material procurement inefficiencies, independent of typical decline in component costs

- **OPEX:**

- Headcount down 8,500 since Q1 of last year, before the impact of acquisitions. Improving productivity: revenue per employee up by 24%
- Increased percentage of front-line personnel from 54% to 62%

- **Manufacturing and Logistics:**

- Consolidated company-owned sites in the U.S. and Canada



# DELL OUTLOOK

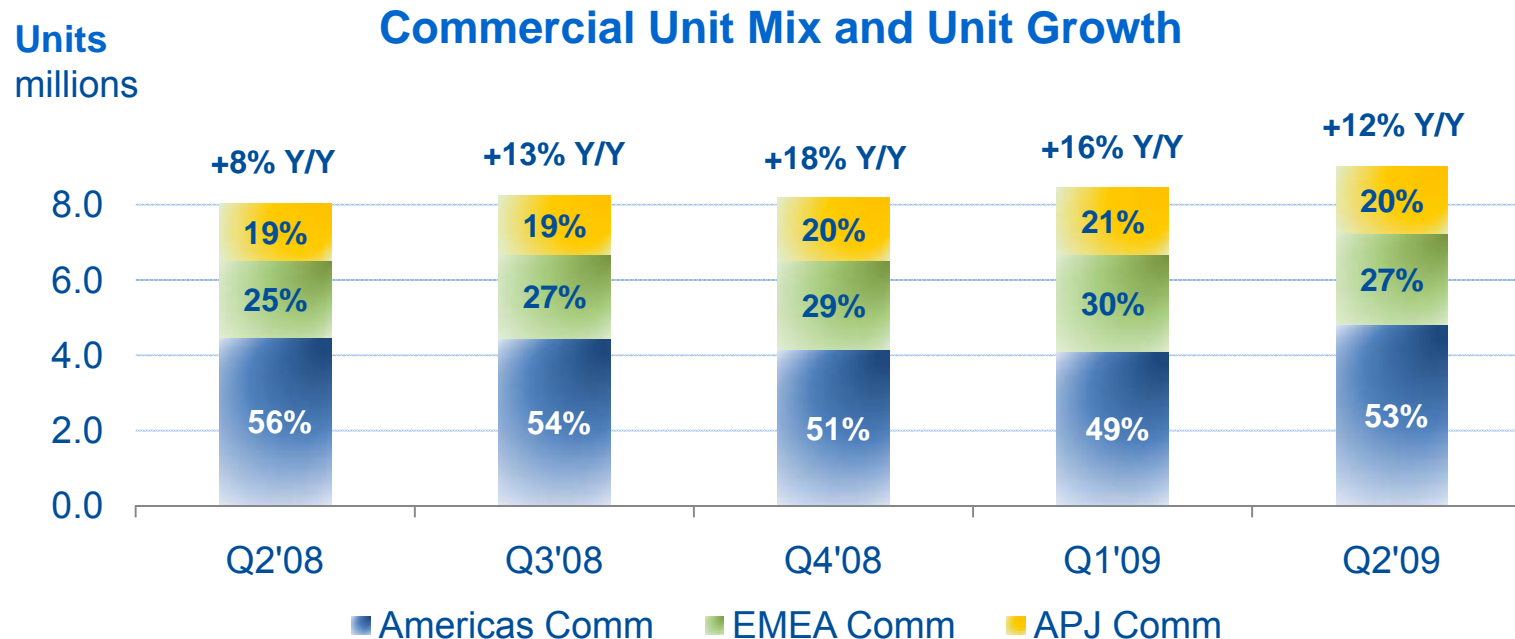
- We will continue to incur costs as we realign our business to improve competitiveness, reduce headcount and invest in infrastructure and acquisitions.
- We see continued conservatism in IT spending in the U.S. – and that has extended to Western Europe and certain countries in Asia. Changes in currency could also affect the demand environment
- We will continue to benefit from improving performance in areas like emerging countries, notebooks, enterprise and services which collectively are driving a more diversified portfolio of geographies and products.
- We are working aggressively on our cost initiatives which over time will benefit our P&L with improved growth, profitability and cash flow.



DELL Q2 FY09  
STRATEGY AND PROGRESS

Michael Dell  
Chairman and CEO

# GLOBAL COMMERCIAL BUSINESS



- Over the past year, commercial business generated \$53 billion in revenue and \$3.7 billion in operating income
- #1 provider of systems for 8 years running worldwide and 9 years in the U.S.
- IT spending, including services, labor and hardware, will approach \$1.5 trillion, and Dell's commercial business has access to 2/3 of this spend
- Unit growth matters for Dell because for every \$1 spent on hardware, another \$2 is spent in additional services and labor



# COMMERCIAL SOLUTIONS RECENT WINS

## *Salesforce.com*

- Collaboration across enterprise sales, high availability database, custom engineering and ProSupport Service teams
- New data center in Singapore that will run entirely on Dell; two data centers in U.S are migrating to Dell
- Our teams collaborate with Salesforce to manage entire multi-vendor hardware and software stack

## *Large Global Retailer*

- Created large virtualization infrastructure solution that includes remote access flexible computing platform as the connection into the virtual cloud
- Supported by enterprise services team providing support desk operational expertise, OpenManage monitoring and ongoing customer training



## *Powering the World's Clouds*

- Recent wins include key players like Facebook, Microsoft, Amazon, and Yahoo!
- Dell powers top search engines and the largest portal in china
- Geophysical modeling clusters at the worlds largest energy companies
- Financial analysis compute farms at global top 5 investment banking firms
- And, 24 of the world's top supercomputers



# LATITUDE E-SERIES



- Launched new Latitude E-Series notebook, the largest global commercial platform rollout in our history
  - 1<sup>st</sup> business laptop with backlit keyboard
  - 1<sup>st</sup> business laptops with color
  - 19 hours of battery life
  - New data protection and mobility services designed directly into the hardware
- 1 billion laptops to be sold in the next 5 yrs
  - Latitude #1 choice of U.S. and UK business
  - 26% unit growth in Q2 commercial laptops
- Will completely refresh commercial desktop and workstation portfolio



## Q2 FY09 KEY TAKEAWAYS

- We are focused on executing against our strategy and revitalizing our competitiveness with our sights firm on improving profitability over time.
- We have reignited growth and expect more to come in the second half of this year.
- We are expanding our solutions portfolio tailored to customers' needs and we expect this trend to continue.
- We will continue to deliver business and financial results that deliver intrinsic value back to our shareholders.

