Jim Suva: Hello, everyone. It's so great to virtually see you. I'm Jim Suva, the IT hardware analyst here at Citi Group Investment Research. We're very pleased to have this keynote presentation and interactive discussion with Dell Technologies, stock ticker, D-E-L-L. It will be myself as well as the chief financial officer, Tom Sweet. A few housekeeping items. First of all, no media and no press. If you're a media or press, please disconnect immediately. If you are an investor subject to MiFID II, please ensure you have the applicable agreement in place. We do note have a few comments about disclosures. There are disclosures on the Citi Group Investment website, also known as Velocity as well as when you logged in and are available. I need to read the Dell safe Harbor statement. Dell Technologies statements that relate to future results and events are forward-looking statements and are based on Dell Technologies current expectations. Actual results and events in future periods may differ materially from those expressed or implied by these forward-looking statements because of a number of risks, uncertainties, and other factors, including those discussed in Dell Technologies periodic reports filed with the SEC.

Jim Suva: Dell Technology assumes no obligation to update its forward-looking statements. And I would note that is on also on Dell Technologies investor relations website. So first of all, Tom, I got to apologize, I wish we were doing this as a keynote in front of lunch in front of over a thousand investors, but they're all connected virtually. So sorry that it's not in person, but I can say what's interesting though, is a lot of things have been changing. And as you CFO, as we start looking at getting closer to the spinoff and the core business becomes the focal point for you as the CFO. Do you think about the business any differently?

Thomas Sweet: Hey Jim, and let me just say, it's great to be with you. I agree, I would rather do it in person, but it's good to see you virtually and thank you for the invite to chat today. So look, I think if nothing else, the pandemic is horrific, as it has been over the last 18 months has taught us, is that technology has never been more essential, right? And we've seen the trends and all the way from the PC, which became a key capabilities. You think about work from home, learn from home and then the capabilities that customers need in their data center, as they think through the technology trends that are continued to impact their business and the modernization that they're doing around their business model. So we're excited about the IT trends that we're seeing.

Thomas Sweet: We think about the world is multicloud. Our customers are looking at us to help them make that transition and manage their environments and drive outcomes.

Our core markets, which to your point, if you think about Dell post spin, our core markets are large markets at $1.3 trillion TAM. So there's ample headroom, I think, to position the business properly and to continue to grow. As you know Jim, we have number one positions in all the categories that we compete in, right? We're number one in client business revenue, and number one in external storage, number one in converge and hyper-converge, number one in server units and revenue. So we have a very broad and expansive portfolio. So I'm excited about the growth opportunities that we see, whether that's in telecom or in EDGE, as we think about data management, data services, those adjacent TAMs we think are pretty interesting for us.

Thomas Sweet: And so if you step back and think about a holistically, great market opportunity, expanding TAM opportunities, we think we have a set of durable, competitive advantages given our scale, our services capability, clearly our supply chain, I think has been doing a really nice job, positioning the business. And you put that all together and we're pretty pleased with our positioning. And we do think that we're going to be able to take advantage of some of these emerging growth trends in the continued expansion of the technology buying that that we're seeing right now. So optimistic about the future.

Jim Suva: Well, Tom you just closed a recent quarterly earnings results. How would you characterize Dell's performance?

Thomas Sweet: Look, I was and my team teases me from time to time, Jim, I was actually pleased with the quarter, right? You think about what we were able to accomplish in a pretty dynamic environment, given the supply chain challenges and the shifting demand, if you will to a certain extent. And so we had an excellent quarter. We set Q2 quarter, second quarter revenue record at 26.1 billion. We saw our client business grow 27% year over year, our infrastructure business, our ISG business for 3%. We saw very strong operating income growth. And so very pleased with that. The demand environment remained healthy. I think we grew on all of our categories, quite frankly, from a demand perspective. As we entered the year Jim, if you recall, what we talked about was the fact that we thought a healthy client environment as we entered this fiscal year that we're in, and we also saw an improving infrastructure environment and that proved to be true.

Thomas Sweet: And in the second quarter, we saw our server and networking business grow 6%. We saw our storage business on a demand basis grow 2% relatively flat to minus one on a shipped basis. We're continuing to take share. So look, I think across the portfolio, all those things that we can do better, but very pleased with what we're seeing in and very pleased with the storage results that we saw last week from a share perspective where we gained 193 basis points of mid-range share, which is an area of focus for us with our new power store offering. So all in all, I think we delivered. We've got to continue to work in the market continues to be dynamic, but pleased overall.

Jim Suva: And during your last earnings call, you did mention a little bit on the outlook about above seasonal outlook. What's underlining that. And is it different in different geographies or different parts of your portfolio?

Thomas Sweet: Yeah, look, I mean, as we exited Q2 and we're obviously in the midst of Q3, but we looked at the business, we looked at the demand environment, we looked at where we were on backlog. And we talked about the fact that we had elevated backlog, just given the supply chain dynamics that we're working our way through. And we put that together and looked at the business and from our perspective, we do see higher than normal historical sequentials from a revenue growth perspective and that was our guidance. You look across the environment that the demand continues to be healthy, the commercial demand which we saw accelerate in Q2, what leaves us optimistic for the rest of the year around the commercial environment.

Thomas Sweet: I think we're well positioned in the consumer PC environment as well. And look, I think the ISG business as we expect continues to, I think as we thought in their guidance and continues to be improving as we go through the year. So you put it together and you'd say, okay, it feels like a pretty good quarter for us. Obviously, challenges that we've got to go drive and continue to execute against, but overall pleased with the state of the demand.

Jim Suva: You know, Tom, I've known you for a long time and I've covered Dell for a long time and I feel like we've been talking about supply constraints for a long time. A couple of years ago, it was CPUs, sometimes it was memory modules. And whether it be trade wars, a boat stuck in a canal sideways, a pandemic popping out, I feel like every year we're talking about these kinds of. So is your outlook being impacted by supply constraints today? And if so, is it more on CSG or ISG or both?

Thomas Sweet: Yeah. Hey Jim, great question. Look, our outlook is obviously we take into consideration where we are from a supply chain perspective and you're right, you just listed sort of the litany of things that we've all navigated over the last number of years. And there continues to be challenges in the supply chain given the

Thomas Sweet: Shortage of semi-conductors across not only our industry, but multiple industries and the logistics chains which are challenged, if you will, in terms of availability, cost, and capacity. But again, I'll kind of come back to one of our durable, competitive advantages, which is our supply chain team does an outstanding job of coordinating and working with our supply base. We do, Jim, have a very large buy on an annualized basis. We're somewhere around a 70 billion spend a year, which is the largest in the industry.

Thomas Sweet: So, that allows us to have, I think, very intimate conversations with our supply chain. We're flashing demand forecast to them well in advance so that we can continue to talk, think our way through and navigate the lead times on components. But clearly what we've seen year to date is that, through the second quarter is that the demand has outpaced our ability to pull supply in. And as a result of that, our backlog has grown. So look, we're not seeing cancellation rates change on us, which is something we monitor very carefully.

Thomas Sweet: And if you looked at the RPO statistics, as we talked to the remaining performance obligations, which we talked about in our earnings call a few weeks ago, you saw that that increased, which was principally around backlog. So look, yes, is our guidance being impacted by supply chain? Yes, but I think the team's doing a nice job of navigating through it and that's what they pay us to do, which is to go execute and make sure we deliver the results.

Jim Suva: Are you concerned at all about any double ordering? In this situation with supply constraints, it's kind of natural to say, "Hey, maybe I order ahead or pull in some demand from future periods in the quarter or two ahead."

Thomas Sweet: Yeah. Look, it is something we watch and we think about a lot, but that gets back to my comment around cancer rates, Jim. We haven't seen cancellation rates move on us, so they're relatively in line with historical rates, which gives us some assurance that we're not seeing a lot of double ordering. We're not seeing orders being placed and then canceled as customers potentially go to other avenues to get their technology needs. And so, I think the industry in general is working its way through supply constraints.

Thomas Sweet: And obviously, we have them as well. You can look at lead times and how we're managing our way through that. But to date, we haven't seen of evidence of double ordering and higher than normal or higher than historical cancellation rates.

Jim Suva: Overall, every company on Monday, Tuesday, and even today on Wednesday has been talking about higher component costs. And while Dell is a very large company with large purchasing power, I think it's fair to talk about component costs. Are you doing some actions to try to mitigate it and does higher component costs impact CSG more or ISG more, or is impacting them both?

Thomas Sweet: I would say that we're not immune to the overall environment. So as we talked about on our earnings call, we have seen, we saw component cost turn inflationary in Q2. We talked about on the call that we expected and see component costs being inflation in Q3. In fact, the rate of inflation picked up from Q2 to Q3. So we are impacted by it and it impacts both our client business and our infrastructure business, principally servers. And we're seeing the higher cost come through in areas like memory, SSD drives, displays have been impacted and we're working our way through it.

Thomas Sweet: What have we done about it? One of the great advantages we have, Jim, is we have a direct model, where over 50% of my revenue is coming in from my direct sellers and therefore our ability to adjust configurations to what we have and optimized configurations, I think is quite strong and the team's executed well on that. As we looked at component cost increases and those higher input costs, we did make price adjustments for Q3 to ensure that we pass through some of those higher costs. Those have generally been well received.

Thomas Sweet: No customer likes to hear that their prices are going up, but they understand the environment. And so, it's a lot of basic execution around making sure that our teams have the latest points of view on cost and how we to price and working with our customers on configuration management. You put all of that together and that's the playbook that we're running to make sure that we're being as effective as we can in what is a challenging cost environment.

Jim Suva: Tom, maybe if we can take it a level into more details, maybe let's start off with your PC segment. During COVID, we bought more PCs for my home, more on the consumer side. Now that I'm starting to go back to work, my desktop camera isn't as great a quality, the sound isn't as good. We're doing some upgrades on the enterprise side. Can you talk about PCs? Because many investors who I've known for two decades talk about a cycle and are fearful post-COVID of a big cliff falling off in demand for PCs. So can you talk about PCs?

Thomas Sweet: Yeah. Happy to, Jim. And look, you and I have been talking PCs for a lot of years and there's been various forecasts around the PC is dead. Nobody's going to buy PCs anymore, but I think the pandemic has made everybody, has sort of reset everybody's expectation that the PC is still an essential device on how you work from home or work remotely and how you learn from home or learn remotely and as well as an entertainment device and a gaming device. And so, we've seen, obviously as has the industry, a resurgence in PC demand.

Thomas Sweet: And we actually think the PC demand has been re-rated. Pre-pandemic, we were somewhere around 260 million units a year. Kind of go forward basis, if you look at some of the IDC forecast and some of the other industry analyst conversations, you're going to see PC demand somewhere in the 330, 340 million units a year on average, as you go through the next number of years. And so, you're right. We saw penetration for household go up from one PC per person or two PC ... I'm sorry, one PC or two PCs per household to everybody in the household having a PC.

Thomas Sweet: The pivot to mobility, the work home, learn from home, that's driven more notebook. The mix of notebooks has jumped up. Notebooks have a faster replacement cycle. And as you move back into the office with many of the customers going to hybrid, you're walking into, in many respects, PC states that are seven or eight quarters aged, and so the technology needs to be refreshed. And so, you put that all together and we're very optimistic about the future of PCs. Not that we won't have some ups and downs within the cycle, but over the long term, we believe that it's sort of a growing market, a sort of low single digit growth over the next three to four years, if you look at say the IDC forecast.

Thomas Sweet: And I think we're perfectly positioned to take advantage of that. Remember that, Jim, our mix is principally focused on the commercial PC. So roughly 70% of our revenue mix within the CSG business is directed at the commercial business, 30% consumer. We're number one in commercial PC revenue. And so, we're excited about the opportunity there as well as think about the PC as a platform. You mentioned it in your question just then around okay, but not in addition to the PC, what's the peripherals around the PC, which are highly profitable.

Thomas Sweet: And I'm attaching cameras, wireless keyboards and mice. I'm putting monitors there. So there's just, and I'm attaching services or financing. So,

Thomas Sweet: We're pretty excited about the revenue opportunity and, quite frankly, the stability of the profit and operating margin there as we go forward.

Jim Suva: And if we look at your other segments, switch it over, say ISG, can you talk about what factors are driving strength there near to midterm in ISG?

Thomas Sweet: I think that goes back Jim, to the trends we're seeing in the market, which is, a year ago when we're sort of in the depths of the pandemic, we saw customers pivot their budgets from data center and infrastructure to worker productivity. So they pivoted a lot of dollars towards the workstation or the PC environment. What we've seen as we got through last year and onto this year is a resurgence of investment back into the data center, as companies are thinking about how do they modernize, how do they take advantage of the data, the data growth that they're seeing in terms of applying compute resources to drive analytics and advanced analytics against that data set? So we're seeing improving ISG demand as we highlighted in Q2. A lot of demand now, server demand, compute demand, has been quite strong.

Thomas Sweet: And so we're positive around that. We've seen an improving storage demand. We highlighted in our second quarter call that we just did that storage demand was up 2%. If you break that apart, what you would see is our mid-range demand, which is, the biggest part of the external storage market was up 17%. Have a bit of headwinds on the high end storage, where we have a fair amount of exposure to, but that tends to be a bit cyclical. And so very strong last year, a little less strong this year. But overall, I think we're pleased with the trends we're seeing and the customer interactions we're having as they continue to invest in modern infrastructures, as they continue to invest in multi-cloud. And they're looking for an essential technology partner like ourselves to help them on that journey as they digitize their business. So I think overall, we feel pretty good about the ISG environment.

Jim Suva: Tom, there's been a lot of talk at our conference about more flexible model, pay-as-you-go, pay-as-you-consume, flexible consumption, whether it be on storage, MIPS processed, maybe even hours used in a data center, or even rent a PC or something like that. Can you talk about more of a more flexible consumption model, and would that have any impact on your financials?

Thomas Sweet: Yeah. And we've talked about this a lot over the last number of years, Jim. Our goal is to make sure that we offer our customers choice in how they want to consume our technology solutions, whether they want to buy it in a Cap Ex model, whether they want to buy it in a financing structure, or whether they want to consume it on a demand or on a consumption type model. And we've been offering various consumption type models for a number of years through DFS with our flex on demand. But as we think about how do we move forward and give our customers a more modern experience, consuming technology, procuring technology, and driving more of an outcome discussion versus a speeds and feeds discussion. That's the whole pivot to apex, which is, we think about the flexible, the modern flexible consumption model that allows customers to go into a console and drive, with a few clicks of a button, decide what type of outcome they want, what kind of SLA they want, and then turn that over to us in terms of providing a managed storage service, or a managed data center utility type model.

Thomas Sweet: And I think from a financial model, if you look at trends in the industry, and trends particularly in the data center, it suggests that as a service are consumption type models are going to continue to be a much more important part of the overall economic environment going forward. And so, again, we're back to how do I ensure that I'm providing customers that opportunity to consume our technology in that fashion? And that's the whole impetus around apex. It's early inning yet, and from a financial impact, it's not a relevant conversation until we see the velocity and the growth of that. And so my whole goal right now is let's push this really hard. Let's drive the velocity. And as a service, I obviously like it from a stability of revenue, stability of cash flow, framework. And we'll provide the appropriate commentary and guidance as this gets to of size where it's becomes noticeable, if you will, or impactful in the financial statements. But for right now, it's early innings, and so we're focused on engaging customers and ensuring that we learn what they need, and we adjust the offering appropriately. And again, we'll update the investor and analyst community when it comes to be a point where it's at a size where we should be talking about it.

Jim Suva: And Tom, your company's been pretty public about your spin out. Any milestones we should be thinking of, or looking at to gauge the temple or mile markers?

Thomas Sweet: Yeah. Hey, Jim, we talked about it in the earnings call a few weeks ago, that we were targeting early November to complete the spin. We do have a big milestone that we have yet to close, or are in a contingency, if you will, on the spin, which is, the process to obtain a private letter room from the IRS on the tax free nature of the spin to the Dell shareholders. And that's in process. Teams are working very closely with the IRS and every information we have, we leave it's on track, but that's still an outstanding item. Absent that, so that's got to get completed and successfully, obviously, to move forward. And we're optimistic about that, but it's not done till it's done. In addition to that, we're continuing to work very closely with VMware, just on sort of the innovation targets that we've agreed to, to go to market motions and tying down sort of the last loose ends on that. But I think I would tell you that everything is proceeding as planned. And I feel good about where we are at this point, Jim. So, we got to get through the remainder of these open items, but I still believe that the early November time frame's the right timeframe to be thinking about.

Jim Suva: And Tom, as Chief Financial Officer, capital allocation is very important to you because your CEO and Michael would love to spend more in certain areas, yet you look at capital allocation, whether it be your rating agencies. We think about there're other ways to deploy capital. M&A, stock buyback and dividends. How should we think about capital allocation, especially kind of post spin or Cordell?

Thomas Sweet: Yeah. Hey, Jim, we've been fairly public that post spin, we would evolve our capital allocation framework. And as a reminder to everybody, over the last five years, I think roughly 95% of our free cash flow has been devoted to debt repayment. And we've paid down something in the neighborhood of $25 billion of core debt over the last five years to current time. And the spin transaction itself will provide for some dividends up to Dell Technologies, which we'll use to further pay down debt. So we'll pay down something, if everything goes as planned, at least $16 billion of debt this year. And so our conversations with the rating agencies and the cash generation strength of the business, we feel good about getting back to investment grade.

Thomas Sweet: And so, you pull back and you say, okay, so what happens post-investment grade? And we'll talk more about it next week at our analyst meeting, in a bit more detail. But I would tell you that we're going to broaden out our capital allocation. We will look at a shareholder capital return program, which will include elements of a dividend, elements of share buyback. Week to date, we generally haven't done a lot of, say, M&A in transactions over the last five years

Thomas Sweet: ... since EMC, EMC transaction. We will bring forward or put in place a targeted M&A framework that will be focused on where do we need IP or technology or other capabilities to farther drive our growth areas, whether that's in telecom or edge, or advanced storage capabilities or so be it. I don't think you should expect large scale M& A transactions out of us. That's not how we're thinking about it at this point, but you should expect us to be a bit more active in the M&A space, and we'll continue to invest in the business. So we'll talk more about it next week, but I do think that getting back to investment grade, which has been the journey we've been on and what we told investors now for a number of years around, "Hey, paying down debt is probably the best use of cash that we can do to get the company back where we wanted and remove that overhang from a valuation perspective." And I think our say-do ratio there has been quite strong, so I'm pleased with where we are, and we'll talk some more about it next week.

Jim Suva: Yeah, Tom. And if my memory is correct, I think your Investor Day is on September 23rd. You've mentioned next week, but I think it's actually the 23rd.

And during COVID though, many companies have stopped giving Investor Days because they like to do it in person and we really can't meet, although I'd love to come to Austin and see you in person. But why have an Investor Day during COVID when everything's virtual?

Thomas Sweet: Well, hey, Jim, I think it's important to reset. I don't know if reset or re-educate or ensure that our investors and potential investors understand what Dell Technologies looks like post-spin. What's our strategy? How do we think about our longterm financial framework? And how do we think about capital [inaudible]? So we collectively feel like now's the time ahead of the spin transaction to get out and have a conversation with our investor base and potential investors and our analyst community around what is Dell Technologies post-spin? What's our strategy? How do we think about growth and opportunity? I think we've done a nice job of navigating the dynamics of the environment. I think the execution focus of the management team and the organization has been quite strong.

Thomas Sweet: And so I think it's an appropriate time to have a conversation around, what's the future look like from our point of view and having a conversation with our investors around, "Here's how we think about the business. Here's how we think about the opportunity. Here's how we think about the financial framework." And so I'm hopeful that it will be a positive and I think it will be a nice conversation next week.

Jim Suva: Tom, you literally have hundreds of people connected to this webcast, which I know you can only see handsome me there, but aside from that, can you maybe use this opportunity before we wrap it up about what gets you excited about Dell? But maybe to educate investors on the maybe one or two questions you get asked the most, to clarify with such a large audience and educate them about one or two things that you get asked most frequently as Chief Financial Officer.

Thomas Sweet: Yeah. Hey, Jim, that's a great question. Look, I think I would say the following, if we look at the business and the markets that we compete in, very large markets, $1.3 billion TAM, interesting adjacent markets like telecom and edge that we think add incremental growth opportunities, and so the point is that these markets aren't going away and there's headroom in these markets for us to continue to drive a consolidation play, an organic consolidation play. If you look at our share gains over the last number of years, both in PCs and servers, mid-range storage, hyper-converged infrastructure, I just think that what we have said we were going to do, we've been doing, obviously, I'd like to do a bit better in overall storage, and that's an area of continued focus for us, but the opportunity to continue to grow in those core markets I think is pretty interesting, and then you add the adjacent areas of potential incremental growth.

Thomas Sweet: I get lots of questions around, can you grow? Can you grow consistently? And I think the markets are there. We've got to go execute, but the opportunity is clearly there. If you look at intermediate term demand forecasts or technology spending forecasts, the infrastructure business, mid-single digit, CAGR growth over the next three to four years. PC's lower single digits, but growing. And so the PC demand's not going away over time. We feel good about that. That whole area has been re-rated. The world's not going to public cloud, Jim. The world's pivoted to multi-cloud, which has been where we thought it was going to go for a number of years. And so, we are the best positioned company from a technology infrastructure company to help customers on that multi-cloud journey and optimization of their workloads and data.

Thomas Sweet: And then you look at our capital allocation framework, which allows for shareholder return, allows for continued investment. You look at the execution ability of the organization. And, again, step back and think about what we've been able to do over the last five years. We talked about the fact that we wanted to grow revenue and then grow op inc and EPS at a faster pace. We've done that. We've paid down debt. We've taken share. We've simplified the organization. So I think we've got a pretty high say-do ratio in terms of creating value for our shareholders. My message is I think there's more value to be created there. Now, we've got to go earn it and drive it, but this is a pretty interesting value creation opportunity ahead for us. So, I'm excited about the future.

Jim Suva: Well, Tom, you answered most of my questions about the clarifications as well as what gets you excited about the future. I sincerely want to thank Tom for joining us here today. He's Chief Financial Officer of Dell Technologies. And remind everybody that, on September 23rd, the company will be hosting an Investor Day and this year it is virtual and we hope that you can attend it as virtually I will also. Tom, any last parting words you'd like to share with this large audience?

Thomas Sweet: Just to say, hey, thank you for taking the time to check in with us today. Jim, thanks for having us. We always appreciate it. And, look, we're excited about the opportunities ahead for Dell Technologies and we look forward to chatting with and seeing you guys next week at our Analysts Meeting.

Jim Suva: Great. Thank you so much and good to see, Tom. Hopefully, next year, it's in-person onstage in front of everybody live.

Thomas Sweet: I'd be fun to do, and look forward to it, Jim. Thank you.