**Morgan Stanley Technology, Media, and Telecom Conference**
**Dell Technologies**

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Erik Woodring: Good afternoon, everyone. My name is Erik Woodring. I lead the hardware research efforts here at Morgan Stanley. Before I get into my guest, let me just read the Morgan Stanley research disclosure.

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I'm delighted to have Chuck Whitten here, co-CEO -- co-COO of Dell, back again this year. Again, before we get into things, I'll read the Dell safe harbor statement.

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Awesome. So with that said, Chuck, thank you very much for joining us.

Chuck Whitten: Thanks for having me. It's good to be back.

Erik Woodring: Happy to have you back again. So, let's start big-picture. I think it's helpful to start. Let's look back at your January quarter earnings, look back at Fiscal '23 as a whole, do a bit of a post-mortem. A bit of it, a tale of two halves. But what's most important to kind of highlight as we look back over the last year?

Chuck Whitten: Yes. Well, look, I think a tale of two halves probably captures it well. We were up 12% in the first half of the year. We were down 9% in the second half of the year, as the demand environment sort of deteriorated around us. But now, we were really pleased with our FY '23 execution and what was clearly a difficult and turbulent environment.

We delivered $102.3 billion in revenue, that was up 1%. We delivered record operating income of $8.6 billion, that was up 11%. We delivered record EPS of $7.61. That was up 22%.

I think we were most pleased, not surprisingly, by the performance in our ISG business. That business was $38.4 billion; that was up 12%. We saw record server and networking revenue performance; we saw record storage performance; we delivered record Op-Inc of greater than $5 billion. You know, and in particular, I think the storage business performed really well. You saw us exit Q4 growing that business 10%. So a lot to be excited with in a very difficult year.

In this environment, we have a bit of a mantra that we're going to focus on what we can control. And the first point of emphasis for us was always on our relative performance and share gain. So in the commercial PC business, we gained share again. It was 140 basis points overall. We also gained share in the commercial business, excluding Chrome, which is a very important profit pool for us. And in servers and storage, we're very confident we're going to gain at least 100 basis points a share when calendar results are reported here shortly.

So, look, it's a challenging environment. I know we're going to talk a little bit about that as we get through today. But you know, our recipe of focusing on what we can control is what we're going to stay focused on. Our cost position, pricing discipline, driving our innovation agenda, relative share, you know, and of course, continuing to invest in our team and culture, as we've been doing.

Erik Woodring: Okay. So let's just -- let's quickly discuss maybe what you cannot control, and that is the macro environment. Maybe just help us understand how you guys are thinking about the world today from a macro perspective, what you're hearing from customers both on the PC and on the ISG side?

Chuck Whitten: Sure. And let me maybe break it into sort of two parts. What we're seeing right now, that kind of influences our Q1 guidance, and then maybe some perspectives on the year, based on what we're hearing from customers.

But look, the challenging environment that we started to describe in Q2 of last year has persisted into Q1. You know, we saw first slowdown last year in Q1, in our consumer PC business. It was followed in Q2 by our commercial PC business. Late in Q2 we talked about a slowdown in the server business. The storage business has held up really, really well, although we started to see some signs of caution I'm sure we'll talk about today, and in Q4.

And so that backdrop has persisted. It is -- the operative word, I would say, is just caution in the spending environment. We're seeing customers be very deliberate in their spending. You know, IT budgets have held up reasonably well, maybe eaten in a little bit by inflation, but held up reasonably well. But there's just a lot of deliberation, more approvals, all the types of things that you kind of see in a caution environment.

And you know, we saw that texture pretty consistently by geography, by vertical, by customer size. You know, geography, North America probably performed a little bit better for us given the strong storage quarter. China was a little bit worse for logical reasons. But otherwise, geographies were very similar.

You know, we saw some strength in financial services, and construction and real estate, and but -- elsewhere, I'd say the verticals were very consistent. And largely, customer sizes didn't really show us any difference either.

So look, it's a cautionary kind of backdrop. So that's the year we're entering. That sort of anchored our sort of comments on Q1. But if you pull back to the full year, you know, we're optimistic that we're going to see a return to sequential growth as the year progresses. There's really a couple of things that underpin that confidence. The first is just based on what I just described, of when we saw slowdowns in our businesses. You know, you look at prior downturns, those tended to be four to six quarters in our segments. We're deep into that now as we come into Q1. But I think more important is the texture I hear from customers, which is, "Look, we're still committed to technology spending, right. It is too central to my business."

The blurring of business and technology budgets is real, and so what we're seeing is not an outright cancellation of projects. They're still planning projects and infrastructure. They're just delaying them. And there's only so long you can do that.

And on the PC side of the business, look; it's been a profound and permanent shift in hybrid work. We're coming up on three years since that rush of COVID devices. 62 million PCs were sold in the first 9 months of 2020. History would tell us we're due, but so is the importance of that device to sort of talent and business.

Erik Woodring: Okay. Perfect. So I think with that backdrop laid, let's get into the segments. We'll start on PCs. Clearly, the top-of-investor-mind. Help us understand how you are thinking about the PC market in 2023, and maybe things to touch on would be end-market demand, channel inventory, pricing. And then I'd love -- at the end of that, you know, I don't want this to just be near-term. So then, maybe as you think about two or three years down the line, what does the PC TAM look like relative to today, relative to pre-COVID levels?

Chuck Whitten: Yes. Well, I just gave you the flavor a little bit about what you're seeing coming into the quarter. You know, it's a challenging backdrop. As you would imagine, in a sluggish demand, deflationary environment, we saw price competition. It was probably most acute in the consumer business where we saw competitors with higher levels of channel inventory using front-and-back-end rebates to kind of try to clear that channel inventory. And we saw competition in the largest bids out there in the commercial PC space as well.

You know, on a pricing standpoint, our business actually performed quite well, and it -- on a total revenue-per-unit basis, we actually saw an increase in our business. And that was a combination of favorable mix, not just more commercial and less consumer, but a trend that I called out and we've been seeing richer configurations, as the PC is asked to do just so much more in hybrid work. But also, more attach of displays, peripherals, services around the box. So that's been beneficial. And so again, we've factored into our guide and our operating plans, the normal level of competitive pressure that you would sort of anticipate. But there's good news underneath the surface there in our sort of TRU performance, because of the attach.

And so that's -- look, that's the current environment. If I go back to sort of what do we think the TAM will do, I'll probably just stay in this year for now versus speculate. But you know, our models now would put us right around maybe just under 260 million units.

But as I think I've pointed out in the past, I think we have, as an industry, done a disservice by talking about aggregate units. Because the reality is, not all units are created equal in the industry, and our business has been principally centered and focused on the most lucrative profit pools, which are the commercial business and the premium consumer space. And so if you look at the commercial business, a commercial PC is 3.1 times more valuable on an ASP basis than a Chromebook. And in the premium consumer space, so greater than $800, a premium consumer device is 2.7 times more valuable than a mainstream consumer device. So what I urge everybody to do, is look at pre- and post-pandemic, not just units but units by those sub-segments with ASPs. And what you'll see is, there's just a much richer and larger profit pool.

By the way, if you went to displays and peripherals, you'd see the same thing. And so look, that's what gives us confidence in the TAM long-term is it's a richer profit pool. That's where we built our business. That's where the operating margins are higher. That's where we have an advantage given our direct motion and our years of investment in this space. And we just see it as so central to the -- not just productivity inside the workforce, but making hybrid work continue to function effectively, that we're going to see growth in that market.

We're seeing caution right now. I think every company is trying to decide, when do I hit go on a refresh. But that refresh is coming.

Erik Woodring: And so you -- earlier, you talked about sequential growth in PCs; you talked about if we look back at past recessionary periods, as a kind of 4-to-6-quarter cadence, which I think is very insightful as we think about this year. Are there other factors that give you confidence in how you kind of think about the year starting from this quarter through the end of the year, in terms of thinking, hey, maybe there will be -- or there should be an improvement in the second half because of these factors?

Chuck Whitten: Yes. You know, I think I touched on it. I think it's both a combination of how long we've been into the downturn in these, in our segments. I think it's the customer tenor and texture that we're feeling. My other observation would be, we've seen a distortion and tilting of spend -- a pretty massive one -- in IT budgets over the last few years. It was first a swing to hybrid work, right, to enable that, and user focus. It then swung very quickly to infrastructure, to be able to enable all those devices we put out there but also online transformation that you had to do in the sort of pandemic. And then most recently, look, it has evolved away from hardware, infrastructure hardware and PCs, in favor of non-hardware categories like security, like BIN analytics. That pendulum will come back.

I mean, I think one observation is even in light of all the macro challenges that are out there, and uncertainty, IT budgets have remained pretty resilient. And so you know, our job is to not just wait for all of our markets to come back but remember, we're structural share gainers in our business, so we still have a lot of headroom in each of those markets, whether the market goes up or the market comes down.

Erik Woodring: Okay. So let's shift to the -- the ISG part of your business, the enterprise focus side. It's been a unique cycle, kind of just as you explained -- it's been challenged by supply change shortages, that kind of push demand at least out, or at least the way that you recognize that demand, out. And so how are you thinking about servers and storage as we go and -- you know, over the next 12 months? You touched on it at the top but maybe if we double-click on that.

Chuck Whitten: Yes. You know, look, it's -- we had a great ISG year, as I said, with $38.4 billion record operating income, record revenue in each of the businesses. But you know, look, this has been eight quarters of growth for us on a P&L basis. So we're going lapping, some pretty strong growth; and two, there is a normal digestion cycle that happens in the server business. And so, you know, we're still seeing that caution I mentioned in the server business persist.

The storage business performed really well last quarter, you know. Up 10% we saw broad strength across the portfolio, you know, hyper-converged infrastructure, our Power Flex product, Power Store continued to grow in the mid range, data protection. So we saw a very strong foundation of storage growth.

You know, our caution in what we're seeing in the environment is, we saw lots of strength in the largest customers, but weakness and declines in our medium and smaller business. And that tends to be a leading indicator for us of sluggishness coming in the storage market.

We have cautioned frequently that the storage business is not immune to what we see in broader IT spending. It tends to lag the server business. But it also has less amplitude, right. And so that's kind of what we expect.

So look, that's the current environment. I think you can understand a lot about what we think at this point about the full year by just looking at our guidance. So we -- we gave a mid-20 guide down on ISG for Q1. We said that the company overall for the year will be down mid-teens, and I think that Tom gave some hints in Q&A that you should sort of think of ISG and CSG as being pretty closely stacked on top of each other. I think that will give you, if you sort of think about sequentials from where we're starting in Q1, a feel for the ISG business.

Erik Woodring: Okay. Perfect. You know, something that has emerged in our conversations, let's call it over the last three months, is this kind of concept of optimizing cloud spend. And so it can mean a lot of things to a lot of different people. Curious, if you're hearing that, if you're seeing that, is that temporary? Is that structural? And you know, how does that impact on-prem spending and your ability to gain wallet share with customers, realizing that you have this very clear hybrid cloud solution?

Chuck Whitten: Well, I think in order of your questions there, I would sway, yes, we're seeing it. Yes, I think it's structural. And yes, it's good for us. But I'll elaborate a little bit.

I'd say, look, you know, fact undeniable on PowerPoint charts I see all over the conference here, you know -- public cloud spend is still growing, but it's moderated. I think what's important is the tenor as to the why, when you talk to customers underneath that. And it is hey, maybe my original premise of not just a CapEx to OpEx pivot, but a more cost-effective solution hasn't panned out. And more importantly, it's been the cost unpredictability that has been the biggest challenge in this environment.

But I think maybe the other trend -- so obviously, that's good for on-premise spending, right. That's causing people to look and say, look, for costs I may want to have more resilience in on-premise. But I think the bigger, broader arc is, customers are also thinking about public cloud spending in a much more sophisticated way, which is, what do I like about the public cloud? Why am I still spending at the rates I'm spending? I like the feature velocity. I like all of the innovation that these public clouds generate. And frankly, I like the ability to burst up and down. And so public clouds are going to be part of my architecture, but that leads us to what you said, which is, I'm going to have a multi-cloud environment. I'm going to have multiple public clouds so I can have the right cloud for the right job. I'm going to have -- where I need cost security, control of the environment, on-premise clouds as data explodes at the edge -- I'm going to have edge clouds. So that's both good for our business on-premise -- it's also good for the company that's built its ISG strategy around trying to solve the challenges of multi-cloud.

So you've heard us talk about we have a ground-to-cloud strategy that is our Project Alpine -- can we put our proprietary software, storage software, into the public cloud so you have operational consistency across on-premise and public clouds. Ground-to-cloud -- or sorry, cloud-to-ground, not just our [VX Rail] and VMWare environment franchise, but you know, we have 70% of Azure stack ACI deployments in the world on our infrastructure. You have long been able to run Anthos and EKS anywhere on our Power Flex validated designs. And a plug, much more coming from us at Dell Technologies World. That's the opportunity for us; not just to protect sort of traditional on-premise spending, but go enable and help support what is a really complex multi-cloud world for our customers.

Erik Woodring: So you know, you touched on this, as you talked about being a structural share gainer. And I'd love to just get into what those factors are that drive that. It's scale; it's the fact that you have your fingers in a lot of different businesses; it's the fact that you're multi-cloud. What am I missing when I think that hey, Dell has been executing fantastically, they've been gaining share -- the reason is XYZ?

Chuck Whitten: Look. I think we always like to say it's not a single thing, it's our business model. Like, it's an integrated business model. So I think one is, look, it starts with, I think we've built the best solutions in our marketplace, right. Our laptops are smarter, more intelligent, more portable, have better battery life. We build exceptional servers that are built for modern workloads. Our storage portfolio is unparalleled. Leadership across all types of storage protocols, and all.

It's also our sales force. We touch more customers than anybody. We have a supply chain team that you study in business schools, right, that navigated this last period of shortage I think better than anybody. We have a global services footprint that's the largest of any of our peer set, that allows us to not just -- it's not just boots on the ground there to fix your devices. It's predictive and proactive telemetry that solves problems before they happen.

We have a Dell Financial Services capability that right now is a counter-cyclical part of our business. So you put all of that in the blender and you say, we just have an advantaged business model. It's a combination of scale. It's a combination of those capabilities. And we still have tons of headroom in each of our markets, right. You know, our -- across all of our three principal business, we are safely below 30% market share. There's still plenty of headroom.

Erik Woodring: Perfect. So I guess maybe if we shift to the cost side a bit, we've talked about a handful of, let's call them structural tailwinds, whether that's mix shift; whether that's services attached. There's also been some cyclical factors that have impacted you guys, FX, logistics, commodity costs, inflationary pressures. Those seem to be -- the winds seem to be shifting, so to speak. So -- and you also announced a cost reduction plan.

And so, help us kind of package all of those together to understand how we think about margins trending going forward. Again, the most important puts and takes.

Chuck Whitten: Yes. Let me unpack kind of, because it's all going into the blender. You know, I'd start, look at the gross margin level for our year next year. You should anticipate us improving gross margins, call it about 100 basis points. That's really a combination of a couple of factors. It's going to be the mix shift towards storage in our business. And it's going to be an improvement in the operating -- or the gross margin performance of our server and storage business due to a combination of the deflationary costs you mentioned and continuing high services attached. So, that's the kind of gross margin level.

I would say OpEx is going to be -- OpEx reduction is going to be a tailwind. I think you have to factor in, when you look at our business, the fact that we are descaling and so there's some operating margin pressure because of that. And then let's go through the other puts and takes. You know, I&O is going to be up $200 million. That's effectively the implications of our DFS originations in a higher interest rate environment. You would see us having counseled that our tax rate is higher, so 24%, that's just the mix of tax -- or you know, where income is generated in jurisdictions. And then we gave you a sort of range of 737 million to 742 million shares for Q1. I think that's a good frame for the year.

If you put all that into the blender, you're going to come up with our kind of down-mid-teens revenue, but $5.30 guide. And I think those are the puts and takes.

Erik Woodring: Okay. Perfect. And then again, looking beyond this year, you know, your analyst day, maybe whatever it was, 14, 16 months ago, you kind of talked about this new Dell that has emerged -- one that grows top line kind of low-single digits, 3% to 4%, mid-single-digit EPS growth longer-term, kind of normalized. Is that still how we all should think about this Dell business going forward? Again, you know, more along --

Chuck Whitten: I think that's the right -- yes. I think that's the right long-term framework. You know, 3% to 4% revenue growth, 6% compounded annual EPS growth. We'd say net income to free cash flow conversion at greater than 100%, and then a commitment to returning 40% to 60% of adjusted free cash flow to shareholders. And I think that's -- that's still the frame.

Erik Woodring: Right. Okay. So let's hit on capital allocation, and then I want to come back to an important topic. And so on capital allocation, you -- you've made significant progress. You've worked your leverage down. You're close to that 1.5 times core target range. You've communicated 40% to 60% return, free cash flow return to shareholders. You just raised your dividend 12%. So a lot taking place. How do we think about your capital allocation priorities over the next, let's call it, one to three years? Is there flexibility to accelerate shareholder returns? What would you have to see to maybe feel more comfortable to do that?

Chuck Whitten: Yes. Look, I mean, I -- yes. It's a bit -- it's a broad question, but I think you've got all the components, which is like, first -- we're committed to this balanced capital allocation. We like the framework a lot. So you know, last year it was $3.8 billion in capital return, and that was a combination of $64.2 million share buyback. And then roughly a billion dollars in our dividend. As you said, we stepped up the dividend, up 12% from $1.32 to $1.48. Let's go through the other potential uses.

We're happy with our leverage right now; we're investment-grade. We're committed to being investment-grade. But you know, there's not -- there's not an urgent pressing debt paydown issue. M&A, I think we've been repetitive to the point of dull with you, that look, our M&A strategy is focused on talent and technology acquisitions that enable our new growth businesses. And they're of the scale that it's not going to distort our capital allocation priorities.

In fact, we just did one in Q4. I was a bit surprised we didn't get a question on the call. We bought an asset called Cloudify that is a cloud orchestration software that will go into our edge environment as part of our Project Frontier effort. But those are the types of assets we're pursuing. So the reality is, that's the -- you know, that's the use. We will -- you know, from a buyback perspective, we have said look, job one is let's be -- let's manage dilution. But you know, we will be opportunistic when we see the stock at a fair value. And so I think given the frame I described, 40% to 60%, that gives us a lot of flexibility as we move forward.

Erik Woodring: Okay. Perfect. So, talk of the conference is AI.

Chuck Whitten: I've heard that, yeah.

Erik Woodring: Obviously you have, yes. You know, maybe just talk about how Dell is uniquely kind of positioned to benefit from the growth of AI workloads, whether it's partnerships, whether it's edge compu, server pricing, help us understand what it is from Dell that allows you to generate value from this conversation about AI.

Chuck Whitten: Yes, sure. I mean, look. I think one is, we've been participating in sort of the growth of AI for a long time, which is great. We're glad to hear the dialogue from customers. But this is not -- this is not a new trend. This is a long, long mega-trend that we have long called out.

I'd say there's -- look. There's three -- there's a few applications in our business. I'd start with, one is, AI is embedded into our solutions to make them better. And so whether it's our workload optimization, the way we manage power and efficiency, the telemetry we use in our services, right -- it's part and parcel of how we build our infrastructure and our PCs.

Second, we've long worked with customers to develop solutions and platforms in conjunction with ecosystem partners to deliver on AI solutions. So that could be, you know, loss prevention in retail, conversational AI, right. And then of course, we apply AI to our business processes as well, right, forecasting and supply chain, customer service obviously, finance. You know, lots of applications. So it's improving our business.

The net of it, if you look at it from a shareholder standpoint is, it's driving the richest growth in profit, you know, pools and infrastructure. And we're going to benefit from that tailwind. You know, I think excitingly for us, if you step back and look at the AI market you're going to see it kind of being in the two buckets -- the broad kind of unbounded AI that you see, you know, what's going to -- what's impacting Bing, and you hear the conversation about it -- but I think more excitingly for us is, hey, look, the application of these models and inferencing to private data sets. Because if you're going to do a medical diagnosis or you're going to do customer service, if you're going to do proprietary security analysis, you're going to want to control your infrastructure. And you know, that's our core business, right. That's what we've been working with customers on for a long time.

Erik Woodring: Okay. Perfect. I would be remiss -- we have a couple minutes -- if I didn't ask you about Apex, it's been a growing initiative for you guys. Just help us understand where Apex is today, what the signposts are that we should be looking for as we look out over the next few years.

Chuck Whitten: Sure. I mean, look. Apex continues to perform really, really well. We announced that you know, and last earnings we doubled the number of customers. In Q2 of last year, we announced that we crossed the milestone of $1 billion of ARR. And we just have a lot of customer interest. It won't surprise you that in this environment as customers are trying to optimize every dollar, you know, flexible consumption -- flexible consumption alongside a modern cloud experience, it's a really attractive value proposition. By the way, as is our DFS business, which had 12% originations up.

And so it's -- and we've continued to steadily expand the portfolio of Apex, which we're committed to doing. And so look, my -- we get a lot of questions from investors about milestones they should be gauging on Apex. I think we're very cognizant that given the size of that business, we don't want to get on the hamster wheel of every quarter sort of talking to you about it. I think the milestones we're focused on is, let's continue to acquire new customers; let's continue to broaden the portfolio of Apex solutions so that a customer can look at what Dell offers, and say, I can buy it, I can subscribe to it, or I can subscribe to it with your managed service. And you know, it'll continue to grow.

So we -- you know, we're very happy with Apex. We just -- you know, we want to be our typical, understated selves when we talk about it.

Erik Woodring: Stay tuned. More to come.

Chuck Whitten: More to come.

Erik Woodring: Totally understand. Cool. So we have just a little bit over a minute; I want to leave you with a couple minutes to just kind of tell us, the audience, clearly to -- it's a tough environment. But you are now entering year two of this kind of exciting post-VMWare spin, Dell, plain vanilla Dell. So, what are you most excited about? And why should investors be excited about kind of the Dell story as we look out from here?

Chuck Whitten: Well, look. I think it's time for long-term investors to take a real look at Dell. And I'd say it a couple ways. Shareholder value is created based on your market position, your strategy, and your execution. I think on the first two, look, we've built something that looks unlike anybody else in technology, and it's been through a series of different and often contrarian bets about the markets. But the net of it is, we have leadership positions in all of our markets, leaders in X86 servers, leaders in every storage category, leaders in the commercial PC business. We're structural share gainers. We've gained 10 points of share over the last 10 years in the commercial PC space; we've gained 9 points of share over the last 10 years in the server space. Our storage business, which is bigger than number 2, 3, and 4 combined, has grown four consecutive quarters as we've overhauled the entire portfolio. And as I said earlier, we'll gain share this year.

But I think more importantly than those positions is the tailwinds are at the back of these markets, right. It is going to be a hybrid, multi-cloud future. Data is exploding at the edge. The PC is central to every business in the future of hybrid work. So that's strategy and market position.

I think the most important part of our -- the thesis for Dell that investors should pay attention to, is I'd put our execution up against any company and any industry. I think we have the highest say-do ratio of any company in the space. We have over the last three years grown our revenue at 6% on a compounded annual basis, 18% EPS growth on the same basis. We've generated $18.5 billion in free cash flow over the last four years. As I said, we've been a steady share gainer. We've generated $4.5 billion in capital returns to shareholders since we announced the return policy in September 2021. And we've done a whole series of other things to simplify the capital structure, spin out VMWare.

And so look, I hear a lot of investors at the conference ask us, hey, I buy all of that, but I'm waiting for that macro moment -- when is the right, exact moment to jump in? And I guess I would just say, no better time than the present. When you have a business that's as competitively-advantaged with market tailwinds, with, you know, a management team that has a tremendous say-do ratio, so I'll just end where I started -- which is, it's time to take a real look at Dell Technologies.

Erik Woodring: Perfect. Awesome. Chuck, thank you very much for spending time with us.

Chuck Whitten: Awesome. Thank you.