

TRANSCRIPT

DELL - Dell Technologies Inc at Bank of America View from the Top
CEO Series (Virtual)

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PRESENTATION

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Hello, and good afternoon. Welcome to our View from the Top CEO Call Series, where we're focused on the vision and strategy CEOs are driving their organizations toward. Before I get started, I need to mention the conflict disclosures as related to the individual companies or securities discussed on the call today can be found on the call invitation.

I also do have to read a safe harbor statement on behalf of Dell Technologies. Dell Technologies statements that relate to future results and events are forward-looking statements based on the company's current expectations. Actual results and events could differ materially due to a number of risks and uncertainties, including those discussed in the company's SEC filings. The company assumes no obligation to update these forward-looking statements.

With that, I am so excited to welcome Michael Dell back to our View from the Top series. This is the third time Michael has been kind enough to share his time with us, and we really greatly appreciate it. It's so hard to do justice on an introduction to Michael, who founded Dell back with \$1,000 in 1984 at the age of 19. We just saw Dell report a \$100 billion-plus revenue year last year, \$50 billion enterprise value. It's just tremendous for an entrepreneur to start where Michael started and take the company to where it is today.

His vision of how technology should be designed, manufactured and sold has really transformed the IT landscape. In 1992, Michael became the youngest CEO to earn a ranking on the Fortune 500. He took Dell Technologies private back in 2013. He architected the largest tech deal in history with the combination of Dell and VMware back in 2016 and the subsequent relisting of Dell Technologies in public markets back in 2018, and then orchestrated the spin-off of VMware.

So just so much of value creation over this extended period of time. It's really hard to wrap our heads around that. Aside from that, in 1988, Michael formed MSD Capital private investment firm that exclusively manages the capital for the Dell family. In 1999, he and his wife, Susan Dell, established the Michael & Susan Dell Foundation to accelerate opportunity for children growing up in urban poverty in the U.S., India and South Africa.

So Michael, I just -- I could just keep going this entire time, and you're on so many Boards and have done so many philanthropic things. It's just amazing. I will mention he's also the author of 2 books, *Direct from Dell* and *Play Nice But Win*, about which we touched a little bit on last year in January when Michael was with us here.

So welcome, Michael. We really appreciate you taking the time to be with all of us here today.

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

Thank you, Wamsi. Great to be with you, and looking forward to the discussion.

QUESTIONS AND ANSWERS

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Thank you so much. So you've just had such a breadth of experience navigating so many different spending environments, economic cycles. And I'm curious to get your perspective on how you're thinking about IT spending in 2023, and how companies and your customers are talking about their spending priorities.

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

As we said on our Q4 call, we expect the early part of FY '24, calendar '23, is going to remain pretty challenging. But we do expect a return to sequential growth over the course of the year. And we've seen in past cycles in 2000 and 2008, you get about a 4- to 6-quarter decline in demand, and we're pretty deep into that now.

It started in consumer last year in Q1, in commercial in Q2, servers in late Q2. And storage is a little different. We have seen a little bit of signs of softening in Q4, but it is more resilient given its sort of richer software content and services content and, of course, the ongoing tremendous growth in data.

What we hear from customers contextually is yes, there's some macro caution out there. We all know that, but everyone wants to be more digital. And I think one thing that's different this time from the sort of prior 2000, 2008 is the generation of leaders leading companies now understand the importance of digital technology in a much more fundamental way to drive growth and productivity.

The other thing that we're hearing from customers is that the device that is right in front of the user is the one that the user most associates with the company's commitment to being a forward-thinking company, right? And so end-user experience and giving the user the right tools is incredibly important. That also supports ASPs, and super important for us because we're certainly over-indexed to the commercial side of the PC equation.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Yes. Absolutely. No, that's a great framework, and appreciate the comparison to past cycles. One of the things that people have looked at over the last decade now is its cloud computing and really trying to understand where IT infrastructure is going as it pertains to both public cloud as well as the impact to what historically have been on-prem players. And so how do you think about the impact of the public cloud to Dell's business model and its value proposition?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

So what we're hearing and seeing from customers is they're moving from kind of cloud to multi-cloud. One of the things I figured out is that lift and shift hasn't really worked out very well. It hasn't been an economic proposition. And if you talked to 1,000 CIOs 3 years ago, they would have thought lift and shift was a good idea. Now if you ask them, they'll tell you, not really such a good idea. So big change there.

Over 90% of the customers already have on-prem, colo and public clouds. And customers are really starting to understand that there's a right place for any given workload, and a new problem that customers face is how do you make all these different environments look like one system? And they're starting to adopt FinOps to really understand which workloads belong where.

We've been having some great success with our software-defined, developer-friendly PowerFlex infrastructure and storage solution. Many of our largest customers are adopting that. That's part of what we call Project Alpine, which we have talked about in the past, extending our storage software so that it works in all the public clouds, on-premise, colo and in the edge.

And of course, now we have PowerFlex and AWS. You'll see more announcements at Dell Tech World coming up here very soon. That's our sort of premier software-defined storage asset. We've got write once, run anywhere partnerships with the hyperscalers around many different platforms. So for example, with Google, we have PowerScale on GCP and of course, PowerScale on-prem and colo.

We have Google Anthos running with PowerFlex. Of course, we have our long partnership with VMware, which continues around VMware Cloud Foundation. With Microsoft, we're working very closely with Azure Stack HCI, which allows those workloads to run anywhere the customer wants. And with AWS EKS Anywhere, that platform is running on top of our storage as well. And we've got our Dell-validated platform for Red Hat OpenShift.

So whatever platform the customer adopts, we've got a multi-cloud solution for that. Data protection is also a big use case for cloud, and we have over 1,700 customers that are protecting over 17 exabytes of data in the cloud. And we have PowerProtect and our Cyber Recovery Solution in all 3 of the major public clouds.

We also continue to extend partnerships with folks like Snowflake and Starburst. And then we talked about Project Frontier in the past. We'll be making some big progress announcements at Dell Tech World here coming up. This is all about the edge and how to orchestrate applications across the core and the edge and the cloud, and that's another big part of what we're doing.

One other thing I would point out is we also serve a lot of the Software-as-a-Service and hosting and consumer web tech companies providing infrastructure to over 75% of them. This is about 20% of our ISG business, and what these customers tell us is that public cloud is about twice as expensive as what we provide them.

So it's really a workload-by-workload discussion. Customers are rethinking what really makes sense with respect to cloud, and certainly multi-cloud is the momentum area that we see.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

No, that's super helpful context. Michael, Dell's been so dominant in hardware, right, with PCs, with servers, storage and networking. After the VMware spin, do you feel that Dell needs to rebuild more infrastructure software capabilities, either organically or through M&A?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

So we're quite focused on organic investment in software. Dell is already #1 in storage software, and all of our storage platforms have incredibly strong software content. More than 85% of the engineers in our ISG group are software engineers. And we have incredible software assets like our data protection and PowerFlex, which I mentioned earlier. That's our kind of premier software-defined infrastructure and storage solution.

And yes. So software is a big part of what we do. In terms of acquisitions, look, I think you'll see us do perhaps small, targeted tuck-ins where there's IP that could be accretive to kind of accelerate the things we're doing around multi-cloud and telco and edge and some other areas, but I wouldn't hold your breath for any big software acquisitions.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Okay. Fair enough. You've obviously taken Dell private before. It was a fairly challenging process, but at the end of the day, you got it done. And you've done a lot of strategic things for several years, and then you brought it back to the markets. With Dell stock trading at 7x calendar '23 and 6x calendar '24 PE and less than 10x EBITDA to free cash flow on calendar '24, we get this question a lot. What would it take for you to consider to take Dell private again?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

Well, no plans to do that. And really, Wamsi, not going to do that. We're public. We're going to stay public. The real answer to your question is we're going to buy back more stock and use our capital to return -- we're going to return our capital to shareholders in the form of dividends and repurchase.

And I think you've seen us take a number of steps along the way to deliver great returns to shareholders and continually be more shareholder-friendly. If you look back, this is over a decade ago now, the circumstances then were entirely different and simply just do not exist today. You had this fear that the smartphone was going to replace the PC. We were #6 in storage. We were #2 in servers, and I owned a lot less of the equity of the company. And debt was cheap and abundant.

None of those things are true anymore, right? So over the last decade, we've made a number of key strategic decisions, including the EMC combination, the VMware spin. All of that's created a lot of value. And look, we've transformed the company. We're #1 in all of our primary markets, and it's a different company than it was then. So no, we're not going private.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Okay. That's clear enough and fair enough. I think the conditions around both what the market is and where your exposures are are just tremendously different. And you just have such a dominant position in your markets today with some of those fears of PCs going away have actually turned on their head now after COVID.

I guess another topical thing, Michael, is just AI. And it's been the rage of a lot of recent conversations, including large language models like ChatGPT driving the need for beefier servers and storage. Do you expect a material change in the trajectory for industry server growth? And how do you think Dell participates in this? Do you think it's going to become big on-prem or largely going to stay with hyperscalers?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

You forgot about the edge. I think there's going to be a lot of AI at the edge also. But if you have a lot of data and you're not using AI, you're doing it wrong, right? So there's so much data. The only way to interpret the data is AI. And for some time, the AI workloads have been the fastest growing workloads that we've seen.

And as a leader in infrastructure, we're clearly positioned to benefit from that growth in machine intelligence. And look, we continue to innovate there. We recently introduced our XE PowerEdge servers as part of our 16th generation launch. That supports 8 NVIDIA H100 Tensor Core GPUs or also the A100s. And those are the kind of machines you need to run these large language models.

As I think about those, there -- it's a massive unlock of the power of data, and it requires enormous computing power. And while we've all sort of seen the demonstrations of chatbots and things like that, that's all fantastic. There are open source models that customers are already beginning to use that allow them to use their private data and drive efficiency and productivity within the narrow bounds of what they're trying to accomplish. So let's say I'm at Bank of America.

I don't necessarily use it to write poems, right, or tell me who the president was 100 years ago. But if it can make people at Bank of America more productive, well, Brian and the team are going to be super interested in that, right? And they are, right? And so customers are going to need dedicated infrastructure that allows them to do that in a secure way, and they certainly don't want to hand over their proprietary, confidential, secret data that they're bound to protect, to some public model.

So I think that's all positive. Certainly, servers, there has been a trend toward more memory, more virtual machines, more GPUs inside these servers, and that's because of the rapid growth in AI workloads. And we even believe that most of the growth in the future will come from machine intelligence workloads. So that's why we announced a whole series of things with NVIDIA, because that's going to be kind of the primary application going forward.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Yes. That makes a lot of sense. Maybe -- I do want to come back to servers and PCs in a little bit, but I want to talk about the capital allocation model because this has been a change in the story. You're targeting returning 40% to 60% of free cash flow to shareholders. What drives your decision, whether it's at the low end of that range or higher end of that range? And why is that the range?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

Good question. So look, Dell is a cash flow generating machine. I mean, if you look over any period of time, it's just a lot of cash flow, and we've been super efficient at that. We delivered \$18.5 billion in adjusted free cash flow over the last 4 years.

And we've got a strong record of shareholder returns, particularly since we instituted our balanced capital return policy after the September 21 meeting and the subsequent spin of VMware and the pay down of debt and all the things that happened around that time.

So since that time, returned \$4.5 billion to shareholders, and we reaffirmed our commitment to shareholders with a 12% increase in our dividend in FY '24. You could see some tuck-in M&A if we find good things, but that and continuing to deal with debt are really not going to absorb much capital.

So we are going to return excess cash to our shareholders, and it's going to come in the form of share repurchase and dividends. And that means it's likely to go higher, higher than 60%. So -- and all of that is supported by strong cash flow generation. So 40% to 60% is our stated model, but I'm going to tell you that we're going to return excess cash to shareholders, and it's not clear to me that we have other good ways to spend it.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Yes. And that seems awfully prudent, given where valuation of Dell's stock is, particularly at this point in the cycle where PCs have had a couple of tough years, and frankly, the macro backdrop is uncertain. But at the same time, we do know that we're in a cyclical down cycle where it's going to come to an end, and these valuations will rate higher. So absolutely commend that. Just returning more capital to shareholders is -- definitely seems like the right approach.

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

And through it all, we'll generate a lot of cash flow.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Right, absolutely. And you just mentioned that you raised your dividend, right? And this is in the midst of a very tough macro backdrop. So again, it shows your confidence in the cash generation ability of the company. How should we think about the dividend? Is it a certain yield target? Or is it dividend growth consistent with operating earnings or cash flow? Like how do you think about it?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

We think about it more in terms of the annual dollars. We did raise it to \$1.48 per share. And yes, it's a reflection of our conviction in the cash flow generation and our commitment to shareholders.

And we would expect to continue to grow our dividend at a minimum, consistent with the long-term value creation framework that we've laid out of EPS CAGR of 6% or more. So if you look at the dividend, it's about \$1.1 billion, and we think about it more in terms of the dollars. But it's a yield of I think 3.8%, something like that.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Yes. Yes. That -- yes. No, that makes a lot of sense. So on the share buyback point, you mentioned that this is kind of an opportunistic time where you would probably pivot higher than the 60%. Last year, you repurchased 2.8 billion in shares.

And typically, you say you balance that between programmatic and opportunistic. How much of fiscal '22 would you say was programmatic versus opportunistic? So we know like what's the baseline of what we can nominally expect, and then what you would consider as opportunistic.

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

Well, I suspect the programmatic part is offsetting options and things like that. The opportunistic part is we're just intrinsic value buyers of the stock. So if the stock is lower, we're going to buy more. And if it's higher, we're going to buy less.

But look, I mean, we repurchased 74 million shares since the fourth quarter of '22. That's \$3.5 billion. Some of that was kind of a onetime catch-up related with the VMware spin. But you could expect us to continue to be buying back our stock.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Okay. That makes sense. And I know some of your competitors have committed to returning maybe 100% of free cash flow to shareholders. Is that something that's on the table as you think about the framework around just capital return? I know you're already kind of pivoting towards a higher number than the 40% to 60% right now, but why isn't it 100%?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

You sound like you're asking the questions I've been asking. Look, we have a meeting coming up in the fall. I think we'll have more to say about that. But suffice to say, we are going to return this capital to our shareholders.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Understood. Okay. So on the -- you touched a little bit around tuck-in acquisition that you might do or tuck-in acquisitions that might come by that you might do, but not really something that's very large. But right now, we were also going through sort of an economic down cycle where a lot of companies' EBITDAs are facing a lot of cyclical pressure.

How do you think about your leverage ratio? And is the aspiration still 1.5x core leverage? And if you think about the excess cash, like do you think that over time, if you're not going to spend a lot on M&A, that 1.5x core leverage is the right level?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

No change to the 1.5 core leverage target. And look, we do see some additional debt pay down as we work toward that target. And we're committed to remaining investment grade with all 3 agencies. We did issue some notes last quarter that was pretty opportunistic, given the market.

We intend to use part of those proceeds to pay down a maturity that we have coming in June. But look, we're committed to investment grade, haven't changed the 1.5x core leverage target. That's a very comfortable place for us.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Got it. Okay. A question just on M&A. There has been a lot more regulatory scrutiny around M&A, and the question does come up a lot around VMware, in particular. To the degree you can comment on it, would love any perspective on what are your thoughts on what could happen if you don't get the deal between AVGO and VMware approved? And what is kind of plan B in that scenario?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

Well, I suppose you're asking me as Chairman of VMware, not Chairman and CEO of Dell, since VMware is no longer part of Dell. Look, I'll defer to Hock Tan at Broadcom and Raghu at VMware to comment on that. But everything is proceeding, notwithstanding the regulatory review, which is sort of normal for a process like this.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Got it. Okay. Well, coming back to Dell, I guess, when you think about the -- maybe just let's pivot a little bit to the product areas. Let's talk about PCs, right? Is it too early to call a bottoming in -- for PCs in the first half of '23?

I was just out in Asia, and a lot of the Taiwanese supply chain is getting a little bit more excited about the bottoming in PCs. We just saw Micron report results talking about a lot of inventory depletion that's happening. And so, curious to get your thoughts around where we are in sort of the cyclical phase of PCs.

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

Yes. I mean, I think we're seeing some signs that are encouraging in some of our customers, but this is also tied to the macro environment. We have very good listening posts. Our view is that the market this year for PCs is probably something around 260 million units.

And look, there is a large installed base. It has to be refreshed, and the refresh is coming. We're now 5 or 6 quarters into the declines, and also the installed base has shifted materially over to notebooks, which has a faster refresh cycle. We also expanded our TAM by expanding into peripherals and accessories, which is a nice category for us.

So look, we've shipped 160 million units over the last 3 years. The refresh cycle is coming, and we're well positioned to take advantage of that. Having said that, we've gained share when the market's up, we've gained share when the market is down very consistently over 10 years.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Yes. Well, you guys have done an amazing job with share and also with attach and just driving the dollars in the PC business. Michael, how should we think about channel inventories? How is that trending for the industry and for Dell in PCs?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

Yes. So on inventory, we did a nice job driving inventory down in our fourth quarter. I think there's still inventory to be worked through on kind of the overall system. We have been able to, I think, have a -- maybe a \$1.5 billion reduction in inventory from Q3 to Q4, which was pretty good. So we manage inventories pretty tightly.

I do think there's some elevated inventory levels that are out there, particularly in retail. Our business is 80% commercial, so probably less affected by that. And look, I think our inventory position is differentiated. In terms of channel inventory, we carefully monitor the sell out and the sell in, and it's in line with our target range. I think I misspoke there. Q4 inventory was down \$1.4 billion, not \$1.5 billion.

And we're in a good position. We've got about 90% of our products now are at standard lead times, and managing our execution through a time like this is really important. We're going to stay disciplined in our kind of balance of growth and profitability.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Yes. Okay. That's helpful. Michael, just in terms of configuration, both in commercial, which is much more important for you, and in consumer, just given the weak macro and also given the lower component pricing in NAND and display, what are you seeing around configurations? And how do you think that might impact gross margins?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

Well, again, here, I go back to the end-user experience. And inside companies, they figured out that the end-user experience is what the employee most associates with the companies in sort of being a forward-thinking company. And if they have a great experience, they're happy. They like it. They feel like they have the tools to be empowered. If they're not, the opposite is true.

So we're not really seeing any change in that. And not all PCs are created equal, right? We're much more focused on consumer, non-Chrome. Those are generally more than 3x more valuable than a Chromebook. And we're well positioned. We've got deep relationships with the customers. We have a unique direct sales motion as well as channel partners and a strong attach.

And look, again, 80% of it is commercial. Our CSG business has sustained revenue profitability growth over the long term, 8% revenue growth and 12% operating income growth from FY18 to FY23. And again, in commercial PCs, last year, we gained 140 basis points of share, 500 points over the last 5 years and 1,000 points over the last 10 years, and we still have a long way to gain share. So -- and certainly, if you look at this part of the industry in terms of share of revenue and share of profits, we're absolutely the leader.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Yes. No question about that. I was curious, Michael. There's not been many alternatives in terms of silicon for PCs in terms of processors. You've seen Apple come out with its own M1, M2 chips. Do you think that poses any risk to Dell's A) business and B), would you be interested in buying those chips if they were actually available to buy?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

Well, there are more alternatives showing up every day, Wamsi. And competition has been a good thing. It's been good for customers, it's good for us. Historically, kind of the open architecture of the PC has benefited from scale and competition. Over 90% of the PC class CPUs and graphic silicon are being developed by companies that openly sell their parts: Intel, AMD, NVIDIA, Qualcomm.

And these companies are making significant investments to be competitive and stay competitive. ARM, as you know, is now available on PCs, and that's going to increase in the future. Microsoft is continuing to make investments in application compatibility, and applications like Office are being launched so they run natively on ARM.

And Qualcomm is investing in high-performance ARM CPUs from the IP they acquired through a company called NUVIA, which we know a lot about because we were early investors in it. We have -- we're certainly working with ARM more and more, and even further out things, like the RISC-V open source instruction set. So I think you'll see a lot more in that space soon.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Okay. No, that's great to hear. And Michael, just to wrap the discussion around PCs. You mentioned this large installed base with a propensity to refresh. The refresh is coming. Other than the fact that notebook replacement cycles and notebooks have become a larger part of the installed base, the replacement cycle's faster, what would you say or maybe a couple of key things that can drive refresh over the next, call it, year or so?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

I think it's the -- first of all, we're asking these devices to do more and more. One of the things that is driving some demand is people coming back to the office, right? Because they sort of worked really hard to get the thing at home working great. Now they go back to the office, and it's too old. They don't have the right display. They don't have the right video camera. They can't do all the things they want to be able to do.

So I think the ongoing tightness in the labor market for skilled knowledge workers, that means they're going to demand to have the latest tools to make them productive. All of that, plus you're just going to have this wave of systems that get older and older, and we were just talking about all these new microprocessors that are coming. Well, they're higher performance, they use less power, displays are getting better. All of that is going to be positive for the refresh cycle.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Yes. No, that makes a ton of sense. Maybe pivoting to ISG. And this is maybe a broader like financing question, but we've seen a rapid increase in interest rates, and so the cost of financing hardware has gone up dramatically at the same time. As the return thresholds for new projects are higher, how would you say this is affecting demand within ISG? And more broadly, like what -- how are customers thinking about dealing with the change in rates?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

I -- it's hard for us to see that in a micro sense, but certainly, there have to be businesses that have been refactored in the economy as interest rates have gone to sort of non-zero levels. But not -- I wouldn't call that a huge factor in our demand.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Okay. Understood. In ISG, the backlog in servers has sort of normalized. How do you see server -- both unit growth trends, especially in light of the new product launches at Intel in the second half of this year, how are you thinking about the growth and if there is a server refresh cycle that might be emerging again?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

So we grew server revenues 5% in the fourth quarter, and ASPs have been pretty good. We've had 9 quarters of consecutive growth in servers year-over-year. And look, we gained 127 basis points of share in mainstream servers and 350 basis points over the last 5 years. Look, I do think the market is going through a period of digestion right now.

And we said in the fourth quarter on the call that we expect ISG to be down mid-teens probably for the full year. We have launched our 16th generation PowerEdge. That's also a refresh cycle, right? Because you've got systems that have significantly better performance, use a lot lower energy consumption, particularly important in Europe and Japan as examples.

And the innovations that are coming out of Intel and AMD and NVIDIA I think will ultimately cause the cycle to restart. So a digesting period for a bit here, but I'm confident that the long-term growth in data and compute and storage AI will bode very good things for our server business.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Yes. No, that makes a lot of sense. Just on the near term digestion comment, right, like how should we be thinking about server pricing in that weaker demand environment? And you run an amazing supply chain. You guys are so nimble and so well tuned to commodity price changes and so many other factors that, given that expertise in supply chain and your ability to take share, would you use prices as an incremental lever during this kind of softer period to take incremental share?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

I think you'll see us be pretty price disciplined, and it's not really clear to us that it's that elastic. So we'll be competitive, but I wouldn't expect big changes there. And look, we have seen more cores, more memory, more AI GPUs. That's driving bigger servers. That's generally helpful for ASPs. You'll have some deflationary input costs, and that will certainly find its way into the system. But yes, I would expect us to be price disciplined.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Okay. That's helpful. And as we think about storage, maybe just pivoting to storage, we've seen a lot of your competitors start to talk about a slowdown, especially in the all-flash area. What is Dell seeing in this market?

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

So we operate in a very broad market, and we have the ability to kind of pivot where we see demand. We're in all-flash. We're in hybrid. We're even still in those old things that people call hard drives. We're #1 in all of them, right? And we're number -- we're bigger than #2 and #3 and #4 combined. And in any sort of derivative of it, we're also #1.

And we gained share. Last year, we gained 4 points of share in the midrange over the last 5 years. Very pleased with our momentum. We've had P&L growth in the last 4 quarters. For overall storage, seeing some change in customer behavior, some lengthening of sales cycles, some caution. So it's not a surprise to hear that there've been some of that going around.

But look, the growth in data continues to be exponential and very strong. The growth of the edge, multi-cloud, customers' appetites to be more digital. I'm confident we're in a great position. And even with our leading share position, there's still a lot of share to gain.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Yeah. No, that's for sure. And I mean, you guys have -- yes, I think going back several years, you actually recovered a lot of share from maybe the lows post-EMC integration that's from there to now, shares roughly doubled back again. Or maybe not quite that much, but there's been a significant increase over the last several years. It's not at historical highs, but still, it's increased significantly.

Michael Dell - *Dell Technologies Inc. - Chairman & CEO*

We made a number of investments to better position the portfolio. We had way too many platforms, so we kind of improved all that. That's unlocked investment capacity and we're executing better, as you see. And last quarter was a record quarter for us in storage for all of history.

Wamsi Mohan - BofA Securities, Research Division - MD in Americas Equity Research

Yes, which is saying a lot for Dell. Michael, how do you think about HCI, hyperconverged? Is that still a large growth opportunity? Or is that now, with the way that people are thinking about their infrastructure, maybe not quite the area of focus it was a few years ago?

Michael Dell - Dell Technologies Inc. - Chairman & CEO

So it's another area where we're #1. We have 37% share in hyperconverged. We're bigger than #2, #3, #4 and #5 combined. And look, customers are increasingly focused on next-generation Tier 2 storage architectures.

We have 2 leading platforms there, our VxRail platform, which we jointly developed with VMware, and our own software-defined offering based on PowerFlex. That's really growing fast, particularly with large companies. Your company is one of the companies, but lots of great companies out there.

And all of this is also part of multi-cloud and kind of these expanded partnerships around container orchestration. So HCI is a large opportunity. I also think you're going to see a lot of HCI at the edge.

Because if you think about a -- advanced manufacturing company with 150 locations or a retailer with 15,000 locations or you're out in the natural resources, you've got locations spread all over the world, you're connecting by satellite, you need an all-in-one appliance that kind of runs everything.

And that's what HCI is perfect for. We've now got kind of rugged appliances for the edge that are really HCI-driven. And so I think we're well positioned here. It certainly continues to be an important category. And it's kind of the fusion of servers and storage in one, so not surprising that we would be the leaders there.

Wamsi Mohan - BofA Securities, Research Division - MD in Americas Equity Research

Got it. I know that on-prem as a service has really started to hit some traction, and curious what you're hearing from your customers on APEX and your on-prem as a service initiatives.

Michael Dell - Dell Technologies Inc. - Chairman & CEO

Yes. So we've had managed services and subscription for more than a decade. But in May of '21, we announced APEX to deliver a cloud-like modern IT experience, including multi-cloud. And the capabilities continue to expand.

I mean, we're just piling in with all sorts of new advancements in the portfolio, from data protection to cyber recovery to containerized multi-cloud and obviously, managed services. Customer reaction and feedback and demand has been strong.

We reached a nice milestone last year in Q2, disclosing that the APEX annual recurring revenue is now over \$1 billion. We've more than doubled the number of active customers over the course of last year. And as I said, the portfolio continues to grow.

We have APEX Hybrid and Private Cloud. We have APEX Data Storage Services, High Performance Computing, Backup Services, Cyber Recovery, our Flex on Demand and Data Center Utility. A week or so ago, we announced our APEX Managed Device Services for client, and there's going to be a whole additional blizzard of more at Dell Tech World. So for us, this is a super important initiative. Customer and partner adoption is strong, and it's also a nice TAM expansion.

Wamsi Mohan - BofA Securities, Research Division - MD in Americas Equity Research

Got it. Maybe pivoting a little bit to the channel. How are you thinking about the focus on the channel for Dell? Are you -- do you think your distribution's kind of optimal? Do you think you need to double down on the channel? And what do you gain or lose by incremental investments in the channel?

Michael Dell - Dell Technologies Inc. - Chairman & CEO

We like the configuration we have. Our business, as you know, was a little over \$100 billion, roughly 50-50 split between direct and channel. We have the largest direct go-to-market sales force in the world, 32,000 strong. And we also have over 200,000 channel partners. They give us reach and solutions on top of our products that provide additional access to the market. And so strategy is working well. We're pleased with the partnerships that we have with the channel and kind of like the mix that we have.

Wamsi Mohan - BofA Securities, Research Division - MD in Americas Equity Research

Okay. Great. Michael, I'm curious. I mean Dell is trading at this pretty inexpensive valuation. It begs the question, what do you feel investors don't understand about the company? Or what do you think is misunderstood about the company?

Michael Dell - Dell Technologies Inc. - Chairman & CEO

I think it's a good time for long-term investors to take a serious hard look at Dell Technologies. And we are #1 in all of our core markets, and we're structural share gainers. We've gained 9 points of share in server revenue over the last 10 years. We've had 10 consecutive years of share gains in the commercial PC market.

In storage, by far and away, we're the leader. We've overhauled the portfolio. We've had some very nice consecutive quarters of growth here and gained 85 bps of share last year. And even within those large core areas where we generate very strong predictable cash flows, as I said earlier, we have a lot of share to continue to gain.

Importantly, we've got some long-term tailwinds in those markets. Infrastructure is going to be multi-cloud and hybrid. That's what we're seeing. Edge and telco are meaningful growth opportunities. And the PC is essential to productivity, and we're certainly heavily indexed to commercial.

And look, you can count on us to do what we say we're going to do and continue to create a lot of shareholder value in the coming years. If you look over the last 3 years, we've grown our revenue 6% compounded, and EPS, 18%. Again, \$18.5 billion of adjusted free cash flow, returning \$4.5 billion to shareholders, bumping our dividend 12%, and we continue to demonstrate our commitment to shareholders beyond the dividend.

We simplified the capital structure. We paid down \$30 billion in debt. We spun VMware in a tax-efficient way. And let me be clear. Future cash flows will be returned to shareholders. So look, in Dell Technologies, you've got the opportunity to buy a competitively advantaged business in a long-term, stable, attractive market with a management team that has an unrivaled say-do ratio at an incredibly attractive valuation. So yes, I think it's a good time for long-term investors to take a hard look at Dell Technologies.

Wamsi Mohan - BofA Securities, Research Division - MD in Americas Equity Research

That's a very compelling case you're making right there, Michael, and I'm sure people will take a hard look at it. One of the questions we get sometimes is you've had a long, very fruitful partnership with Silver Lake. Any thoughts on sort of their long-term commitment to be a shareholder as well?

Michael Dell - Dell Technologies Inc. - Chairman & CEO

They haven't expressed any changes in their commitment to me. So they've -- I think they may have distributed a super small amount of shares, but I think they moved a lot of their holdings into some of their newer funds.

Wamsi Mohan - BofA Securities, Research Division - MD in Americas Equity Research

Got it. Okay. Obviously, they're free to do what they want, but I understand that...

Michael Dell - Dell Technologies Inc. - Chairman & CEO

We do not act as a group, so they're free to do what they want.

Wamsi Mohan - BofA Securities, Research Division - MD in Americas Equity Research

Right. Well, we're coming up to the top of the hour, and Michael, I really, really appreciate all the insight and the time you have taken. I guess you do have a CFO change underway, so I'd be remiss to not ask you. Do you feel that you have the right team in place now to lead Dell? And just maybe talk about the depth of the talent bench at Dell.

Michael Dell - Dell Technologies Inc. - Chairman & CEO

Yes, I do. So look, Tom had a great run. 26 years with the company and about 9.5 as our longest-serving CFO. And we're excited to see Yvonne, which many of you know and have met because she's been on the circuit for a while here and sort of done every job in finance, and she's completely ready to be CFO.

But yes, we have a deep bench inside the company. Many of you know Jeff Clarke, who's been with me for 35 years now, maybe 36. And Chuck Whitten, while he formally joined a couple of years ago, he's been engaged with the company for well over a decade. Jeff Boudreau, leading our ISG business, 25 years of Dell EMC experience. Sam Burd, leading our CSG business, 24 years of experience.

We have a strong, talented team and a deep bench behind that. And look, if you look historically, when -- people won't work forever, right? Some people retire, right, as you saw with Tom. We're generally able to replace them internally with the deep bench that we have, and we're in a good position there.

Wamsi Mohan - BofA Securities, Research Division - MD in Americas Equity Research

Well, Michael, I really appreciate you taking time again to be with us. As always, really appreciate your candor, your very straightforward answers. And I think the message is very loud and clear about the focus on capital return and essentially returning the free cash flow to shareholders.

So I really appreciate you highlighting that, taking the time to be with us, and I really look forward to seeing you at Dell Technologies World in person. Best of luck for the year and looking forward to speaking to you soon again.

Michael Dell - Dell Technologies Inc. - Chairman & CEO

Thank you, Wamsi. Great to be with you, and we'll see you at Dell Tech World. Take care. Bye-bye.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Take care. Thank you, Michael. Thanks, everyone, for joining us. If you have any follow-up questions, definitely reach out, and we'll try our best to get it answered for you.
