TRANSCRIPT

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PRESENTATION

Operator

Good afternoon, and welcome to the Fiscal Year 2021 Fourth Quarter and Year-end Financial Results Conference Call for Dell Technologies Inc.

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I'd like to turn the call over to Rob Williams, Head of Investor Relations. Mr. Williams, you may begin.

Rob Williams - Dell Technologies Inc. - SVP of IR

Thanks, Katherine, and thanks, everyone, for joining us today. With me today are our Vice Chairman and COO, Jeff Clarke; our CFO, Tom Sweet; and our Treasurer, Tyler Johnson.

Our press release, financial tables, web deck, prepared remarks and additional materials are available on our IR website. The guidance section will be covered on today's call.

During this call, unless we otherwise indicate, all references to financial measures refer to non-GAAP financial measures, including non-GAAP revenue, gross margin, operating expenses, operating income, net income, earnings per share, EBITDA, adjusted EBITDA and adjusted free cash flow. A reconciliation of these measures to their most directly comparable GAAP measures can be found in our web deck and press release. Please also note that all growth percentages refer to year-over-year change unless otherwise specified.

Additionally, I'd like to remind you that all statements made during this call that relate to future results and events are forward-looking statements based on current expectations. Actual results and events could differ materially from those projected due to a number of risks and uncertainties, which are discussed in our web deck and SEC filings. We assume no obligation to update our forward-looking statements.

Finally, before I turn it over to Jeff, I want to touch on the amended 13D we filed in July 2020 regarding our exploration of potential alternatives with respect to our ownership interest in VMware. We continue to believe that a tax-free spin could drive significant shareholder value by simplifying our capital structures and enabling greater strategic flexibility while maintaining a strong commercial partnership between Dell and VMware.

Both companies continue to be engaged on key work streams, and as VMware communicated earlier today, we are making progress in our discussion. However, there is no assurance that we will reach a definitive agreement. We will not address the discussions any further or take questions related to this topic on today's call.

Now I'll turn it over to Jeff.

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Thanks, Rob. Hi, everyone. Thanks for joining us for our first call of calendar 2021. 2020 was a year that none of us anticipated and none of us want to repeat. But it also brought out the best of humanity and reinforced the criticality of technology to solving the problems of today and tomorrow.

At Dell Technologies, we are grateful and honored to have a central role in helping our customers, from consumers to the largest enterprises, keep our society, our economy and our lives moving forward.

Finally, I could not be prouder of how our teams responded in Q4 and throughout this challenging year, delivering for customers worldwide the real business outcomes they need. As a result, our customer relationships and conversations have deepened. And no customer is asking how they can unwind their investments in digital transformations. It's all about moving their businesses forward and investing in their future.

For example, gaining insights from data, customers like the University of Pisa in Italy, turned to PowerStore, PowerScale and PowerMax for core storage infrastructure to enable remote learning and accelerate their hybrid cloud and AI projects.

Swisscom AG is using our as-a-Service and flexible consumption storage solutions for affordable, on-demand access to extra capacity when they need it.

And Dell Technologies is in the middle of the edge and telecom transformation, most recently with Tech Mahindra and AlefEdge in Brazil to offer edge computing as a service to local telecommunication service providers.

These customer examples illustrate not just the market tailwinds that will benefit Dell Technologies, a future that is highly digital and highly distributed, but why we are uniquely positioned to take advantage of the trends. Our unique direct sales engine touches more customers than anybody in technology, giving us insights as we build solutions and allowing us to meet customers where they are in their digital transformation.

Our breadth from edge to core to cloud makes us relevant no matter the customer challenge, and our unmatched global services allow us to simplify IT complexity for our customers. Behind all of this, of course, our award-winning product teams, a global supply chain with unmatched scale and reach and financing capabilities that make us trusted IT -- makes us trusted advisers, excuse me, to IT decision-makers of companies of all sizes. Dell Technologies has never been stronger or more relevant.

Turning to the financial results. We delivered a record $26.1 billion of revenue in Q4 with sequential revenue growth of 11%, driven by strong results in our CSG and VMware businesses as well as our improvement in the ISG business. Tom will cover Q4 in more detail later in the call.

For the full year, revenue was a record $94.4 billion, up 2%. Operating income was up 6% to $10.8 billion. And adjusted EBITDA was $12.7 billion, up 8%. Earnings per share for the full year was $8, up 9%.

Throughout FY '21, we leveraged the depth and breadth of our portfolio to lean into the pockets of growth when and where they occurred. We executed with discipline, speed and precision. And in what was an extremely dynamic environment, we delivered record results.

Our Client Solutions Group had an outstanding year, delivering record shipments, revenue and operating income. Revenue for the full year was $48.4 billion, up 5%. And operating income was up 7% to $3.4 billion. And for the calendar year 2020, according to IDC, we shipped 50.3 million units, up 8% and the most ever in a year. Our commercial PC results were even stronger with commercial unit growth of 11%. Dell gained the most commercial unit share of the top 3 vendors with share gain concentrated in notebooks.

Resilient demand was driven by the fast-growing technology-enabled world where consumers can do anything from anywhere. Instead of going to work, school, entertainment, a restaurant or shopping, it all comes to us. The PC is the hub of this new economic model.

Our consumer business delivered record revenue of $13 billion for the year, up 12%. Customers have shifted to e-commerce, and our strategy shift earlier this year to advantage our direct and online selling paid off. Our consumer business was up 51% on a revenue basis based on orders, and our consumer online business was up 64% for the year on orders revenue.

Commercial revenue was up 3% to 34 -- or $35.4 billion, also a record. Orders for our commercial notebooks were up 46% on a unit basis and 28% on an orders revenue basis, while orders revenue for Commercial Chromebook was up triple digits.

ISG Solutions Group revenue was $32.6 billion, down 4%. We saw demand in the second half of the year improve with our best results in Q4, as spend increased in the infrastructure needed to power the do-from-anywhere world.

Servers and networking revenue for the year was $16.5 billion, down 4%, but with growth in the fourth quarter. Server demand improved in Q4, and PowerEdge orders were up mid-single digits.

Our storage revenue was $16.1 billion, down 4%, but we did see demand growth in key areas. PowerMax, hyper-converged infrastructure and PowerProtect Data Domain all saw solid growth during the year on an orders basis.

Our midrange storage business returned to growth in the fourth quarter, driven by accelerated adoption of a PowerStore. PowerStore orders grew 4x compared to the third quarter orders as customers embrace the next-generation of modern data center technology and applications.

In a challenging environment, PowerStore is ramping faster than XtremIO and VxRail, making it the fastest new architecture we have released. Additionally, approximately 20% of our PowerStore customers are new to our storage business as we tripled the number of wins against key competitors quarter-over-quarter.

Our VMware business also had a strong year with revenue of $11.9 billion, up 9%. Our partnership and co-innovation engine with VMware has never been stronger. In Q4, we announced a collaboration with SK Telecom and VMware to deliver 5G-enabled edge computing solutions to help enterprises quickly act on data where it resides. Throughout a year of unprecedented disruption, we were able to pivot quickly, deliver profitable growth, disciplined share gains, consistent execution, innovation and strong financial returns.

Now let's move from FY '21, and I'll share a little perspective of what we see ahead. We believe the demand environment will continue to improve. Estimates from both IDC and Gartner see IT spending growing mid-single digits in calendar year 2021, including growth in our core PC, server and storage markets.

The do-from-anywhere world is here to stay. We believe the total addressable market is expanding as there are still millions of children around the world that need PCs. The number of PCs in the household continues to increase. And additionally, the refresh cycles are accelerating with the shift to notebooks. And we are on the cusp of widespread 5G connectivity driving real-time, automated and intelligent outcomes at the edge. This will drive an estimated $700 billion in cumulative spend on the edge -- on edge IT infrastructure and data centers within the next decade.

There is a lot of opportunity ahead for Dell Technologies, and we are going after it with a balanced growth strategy. That begins with growing and modernizing our core businesses. The value creation potential in our client and our infrastructure business is enormous as we consolidate share in the markets that have steady GDP-like growth.

We also know long-term success means doing more than just winning the consolidation. It requires us to keep modernizing the customer experience, which brings us to APEX, announced last October at Dell Technologies World. With APEX, we are extending our long history of offering IT as-a-Service to deliver IT resources on demand, Dell managed infrastructure, enabling our customers to pay for only what they use, built on a foundation of trusted technology all at scale.

Starting in May, we will bring the first of the new APEX offers to market and add new offerings over the course of the year. This foundational work sets us up to respond to accelerating customer needs and capture market momentum, momentum towards a hybrid, distributed future fueled by data and analytics. We are integrating and innovating on VMware and across our leading capabilities and partner ecosystems to create the automated, integrated infrastructure for 5G and the data era that is AI and ML enabled with intrinsic security throughout.

And that's how we win at the edge, the next technology frontier. By extending our cloud model and ecosystem to the edge, we can provide a consistent approach to infrastructure, data, applications and security across the entire environment.

The competitive advantages I highlighted earlier, our end-to-end portfolio, our sales force and customer intimacy, our global services capability give us a distinctive position in the next evolution of our industry.

Before I turn it over to Tom, let me leave you with a few thoughts. We are emerging in an advantaged position for the enormous opportunities ahead, technology delivered as-a-Service, 5G and edge computing. Technology is clearly front and center for the digital futures. And Dell Technologies is uniquely positioned to win in the data era that is already underway.

Now I'll turn it over to Tom for a closer look at the financials.

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Thanks, Jeff. Given what we were modeling for the demand environment early last year with the onset of the pandemic, I am pleased with the record results in revenue, operating income, earnings per share and cash generation, both for the full year and the fourth quarter. Flexibility of our business model and the adaptability of our team positioned us to successfully navigate the macro environment while enabling our customers' digital transformation.

We ended the year with a strong Q4. Revenue was up 8% to $26.1 billion, driven primarily by the strong growth in our CSG and VMware businesses, with improvement in our ISG business. With a weaker U.S. dollar, FX was a tailwind in the quarter of approximately 100 basis points.

Gross margin was $8.6 billion, up 3% and 33% of revenue. Gross margin as a percent of revenue was 170 basis points lower, driven by the overall mix shift to CSG given the strong client demand environment.

Operating expense was $5.3 billion, down 5% year-over-year, but up 6% sequentially. In the quarter, we started to add back certain employee-related costs, like 401(k) match, merit, promotions and new hiring to support growth.

Operating income was up 19% to $3.3 billion or 12.6% of revenue, driven primarily by our operating expense controls, revenue growth in CSG and improved consumer gross margins.

Consolidated net income was $2.3 billion, up 36%, and earnings per share was $2.70 a share, up 35%.

Our operational execution and the strong demand environment combined to deliver record P&L metrics and a record $5.9 billion in cash flow from operations.

Total deferred revenue was $30.8 billion, up $3 billion. Our recurring revenue, which includes deferred revenue amortization, utility and as-a-Service models, is now approximately $6 billion a quarter, up 8% year-over-year.

And as Jeff highlighted, our APEX offerings will broaden our as-a-Service solutions across our portfolio, giving customers more flexibility to scale their IT solutions to meet their business needs and budgets.

Turning to the business units. Our Client Solutions Group delivered record results. The ongoing strong demand for remote work and learning solutions, along with gaming systems, drove CSG revenue up 17% to $13.8 billion as we delivered record shipments again in the quarter.

Commercial revenue was up 16% to a record high $9.9 billion as we continue to see strong growth in Latitude and Precision notebooks and Commercial Chromebooks. Consumer revenue also reached a record at $3.8 billion, up 19%, driven by strength across all of our consumer notebooks and gaming systems.

CSG operating income was up 67% to $1 billion and was 7.6% of revenue. We saw better-than-expected profitability due to our record shipments, favorable component costs, improved profitability in consumer and continued operating expense controls across the business.

Our client solutions business had an extraordinary year in FY '21 as we moved quickly to take advantage of demand opportunities. This business consistently provides stable revenue and generate strong cash flow regardless of the demand cycles we see in the PC space. Now with the record year we just finished, CSG revenue has grown at a 7% CAGR over the last 5 fiscal years, while the CAGR for operating income has grown by 18%.

ISG revenue was $8.8 billion, which was flat year-over-year, but up 10% sequentially. We were pleased to see improvement in this business as we ended the year, and we believe that there will be improved demand for infrastructure as we move through fiscal year '22.

Storage revenue was $4.4 billion, down 2%. Midrange, PowerProtect Data Domain and VxRail were highlights as all 3 saw solid orders growth. As Jeff described, PowerStore is gaining momentum, and we are encouraged by the upward trajectory of the ramp as orders grew 4x quarter-over-quarter.

Servers and networking returned to growth with revenue up 3% to $4.4 billion. We are pleased with mainstream orders growth, up 11% sequentially. And we saw improved demand from large enterprises and continued improvement from our small and medium customers.

ISG operating income was a record at $1.2 billion or 13.5% of revenue, which was up 80 basis points as we benefited from lower operating expense in an improving demand environment.

The VMware business unit also had a record quarter, delivering revenue of $3.3 billion, up 6%, and operating income of $1.1 billion or 32.2% of revenue.

Based on VMware's standalone results, subscription as-a-Service revenue grew 27%. The business saw strong growth in the VMware Cloud Provider Program, End User Computing, Carbon Black and VMware Cloud on AWS. VMware Cloud on AWS once again had a great quarter with both workloads and revenue nearly doubling year-over-year.

Looking at our Dell Technologies results from a geographic perspective. We saw an encouraging rebound in Q4 orders demand across many of our largest countries. In our top 3 markets, the United States was up 1%, China was up 12%, and U.K. was up 18%.

Dell Financial Services fourth quarter originations were $2.4 billion and were $8.9 billion for the full year, up 5%. DFS ended the year with a record $13.1 billion in total managed assets, up $1.5 billion year-over-year, with global portfolio losses at historical lows.

Turning to our capital structure and balance sheet. We had record cash flow from operations, both for the fourth quarter and the full year. Our strong profitability and sequential growth, along with our working capital management, drove record Q4 cash flow from operations of $5.9 billion. For the full year, we generated $11.4 billion in cash flow from operations.

Adjusted free cash flow in the quarter was $5.5 billion, up 46%. And for the year, adjusted free cash flow was $10.5 billion.

Cash flow from operations for the past 3 years maintained an average of $9.2 billion, illustrating a strong, stable cash generation ability.

Cash and investments at the end of the quarter was $15.8 billion and approximately $10.6 billion at core Dell.

Adjusted EBITDA was $3.8 billion, up 19% at 14.6% of revenue. For the full year, adjusted EBITDA was $12.7 billion, up 8%.

We delivered on our fiscal year '21 core debt pay-down target of $5.5 billion and are pleased with the progress we've made on delevering. Considering the uncertainty that arose in the early stages of the pandemic, this progress is extraordinary, and I'm proud of the team for our strong liquidity position as we exited the year. The strong debt pay-down, along with lower interest rates, drove interest expense down approximately $300 million year-over-year.

During the fourth quarter, we paid down approximately $2.4 billion of core debt. Since the quarter ended, we have notified our bondholders of our intent to repay $1 billion in legacy and high-yield notes that are coming due later in the year. With this anticipated pay-down, we only have approximately $500 million of remaining scheduled maturities for fiscal year '22.

Our total debt principal balance as of fiscal year-end now stands at $48.5 billion, and that includes DFS-related debt of $10.3 billion and subsidiary debt of $4.8 billion.

Our core debt ended the quarter at $29.2 billion, and our core leverage ratio is now approximately 2.5x, which is well within our target core leverage range of 2 to 3x. Given our continued strong cash generation and debt pay-down, S&P and Fitch both raised their credit outlooks for Dell Technologies and VMware from negative to stable while maintaining their current credit ratings.

We will continue to prioritize debt pay-down as part of our capital allocation strategy, and we are confident in our path toward an investment-grade rating.

Now to our outlook for fiscal year '22 and Q1. For fiscal year '22, while the exact timing is fluid, we expect the global economy to improve as we move through the year. This should benefit ISG and VMware as the year progresses, particularly as our customers return to the office. We expect CSG strength to continue through the first half with tougher compares in the second half. Factoring in VMware's standalone guidance, the divestiture of RSA and the ongoing risks associated with the macro environment, we currently expect revenue to grow in the low to mid-single-digit range.

We expect to see costs come back into the P&L, though not fully back to prepandemic OpEx levels. We have reinstated a number of employee-related benefits, most notably merit, promotions and 401(k) match, and VMware and Dell core businesses are investing for long-term growth.

These expense additions and their full year impact, combined with VMware guidance for operating income of 28% for their standalone P&L, should be factored into your operating income models. Also, remember Dell Technologies' VMware business unit results include additional OpEx that we recognize related to the combined solutions selling expenses.

Below the operating income line, we will benefit from the lower interest expense and a stable tax rate of 18%, plus or minus 100 basis points. Please also factor in a higher weighted average share count, driven by the absence of a share repurchase program in FY '21 and currently planned for FY '22.

In addition, we expect to pay down at least $5 billion in debt this year, including the $1 billion I referenced a moment ago.

For Q1, there are a few items we would like you to consider: First, you should factor in VMware standalone revenue guidance, which is in line with normal seasonality. We also expect typical revenue seasonality for ISG.

For CSG, we had an exceptional fourth quarter, and we expect continued solid industry demand in Q1, with industry demand potentially outpacing supply. As a result, we currently expect strong revenue growth in the mid-teens year-over-year. Given our exceptional results in Q4 and Q1 last year, we would be happy with that result. This nets out to Q1 revenue -- Q1 year-over-year revenue growth in the mid-single-digit range.

Below the revenue line, the same perspectives I shared for the full year will also impact your Q1 modeling. Factoring this in, we expect operating income dollars to be down slightly year-over-year.

In closing, we have a strong operating heritage focused on execution in our core businesses and value creation over time. Our model delivers top line growth, solid profitability and generates strong cash flow through various economic cycles and environments. Over the last 4 years, our ISG and CSG combined revenue has grown at a 5% CAGR and contributed more than $310 billion in revenue with approximately $25 billion in operating income. In that same time period, our VMware business segment has delivered $41 billion in revenue and $12 billion in operating income.

Last year was no exception to that strong execution and value creation focus. We outgrew our competitors, gaining share in commercial client and servers. We reenergized our midrange storage offering. We grew profitability faster than revenue and generated record cash flow. We delivered on our fiscal year '21 de-levering goal and continue to focus our capital allocation policy on debt pay-down. And we've taken the appropriate corporate structure steps as evidenced by the ongoing simplification of operations, the divestiture of RSA and the exploration of a potential tax-free spin of VMware.

As we look forward, we will continue to focus on what we can control and be disciplined in balancing growth with profitability and investing in
future growth vectors.

With that, I'll turn it back to Rob to begin Q&A.

Rob Williams - Dell Technologies Inc. - SVP of IR

Thanks, Tom. Let's get to Q&A. (Operator Instructions) Katherine, can you introduce the first question?

QUESTIONS AND ANSWERS

Operator

Your first question is from the line of Aaron Rakers with Wells Fargo.

Aaron Rakers - Wells Fargo Securities, LLC. - Research Division - MD of IT Hardware & Networking Equipment

I guess the question is on the PC business. As we look at your growth, commercial up 16%, I think your competitor tonight was down 6%. I'm just curious, how do you see, as we return back to normal, just the demand environment on commercial PCs? And what's your expectation of growth in that segment as we move through the course of 2021?

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Sure, Aaron, this is Jeff. If you think about where the strong points of growth have been in commercial this past year, we think there are sources of growth as we head into 2021, education being one of those, the public sector being one of those. There's modernization moving towards notebooks, the mobile form factor. We're seeing the mobile form factor now represent roughly 25% -- or, excuse me, 75% of the marketplace, desktops being 25% of the marketplace. That bodes well for [public] organizations that have been roughly 50-50, notebooks, desktops. So some catching up to do there. We think that continues to fuel growth as we head in to the 2021 calendar year, soon to be, or now our fiscal '22 for us.

So I think those signs are good. I think we also have to realize that people are going to go back to work and go into an office, in many cases, they haven't been in for 5, 6, 7 quarters, depending on when that occurs. That will be the largest aging or the most significant aging of an installed base that certainly we've seen ever in our industry.

I also think this -- it's an important consideration. This work-from-home and do-from-anywhere environment, we don't believe slows down post-pandemic or post people going back to the office. So we're going to continue to see an environment where people will do more and more work, more and more of their activities away from the office, driving demand for PCs, which has become essential in this type of work environment, this type of consumer environment. I think I said on our last call, there's no question in our mind that the PC has become one of, if not the most, essential device in this work from anywhere, do-from-anywhere environment that we're in today.

Long-winded way of saying, I think the market continues to look strong. If you saw the IDC data that came out yesterday, their strength of the demand environment continues to be strong in both the commercial and consumer marketplaces in calendar '21. I hope that helps.

Operator

Your next question comes from the line of Rod Hall with Goldman Sachs.

Rod Hall - Goldman Sachs Group Inc., Research Division – MD

Tom, I wanted to drill into this cash flow number because it's extremely strong and just get you maybe to talk a little bit about working capital changes there, how that working capital change looks in April. I mean, normally in April, you'd be increasing working capital. I wonder if that's going to be the case this year. Just maybe talk us through kind of how sustainable some of that is.

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Yes, Rod, I'm happy to chat about it. First, let me just say, I think the company had an extraordinary Q4 from a cash flow perspective. And I think it shows the power of the model when you get sequential growth quarter-on-quarter in the business like we get. And Q4 is normally a strong cash flow quarter for us to begin with, Rod.

So if you look at the demands or the dynamics within working capital, what you saw was despite the strong revenue growth, which drove a build in accounts receivable, our aging actually improved. I think we had good discipline around our inventory positions. And our payables positions were, I think, appropriate.

As we think -- so there wasn't really anything unusual in the quarter from a working capital dynamic other than I think the team executed well in managing the balance sheet, and we benefited from the strong business environment and the revenue environment that we saw.

I would -- so as we step from Q4 into Q1, I would remind everybody that Q1 is traditionally our weakest cash quarter. It's also generally our weakest quarter of the year from a business perspective. So we normally see a cash -- we normally burn some cash in Q1. And I think our expectation is, is that we'll do that again in the quarter, although probably not to the extent that we did it a year ago.

So I mean I think we're being good -- I feel really good about our cash position, $10.6 billion at the core Dell level. I think the teams -- I think we're well positioned from a liquidity perspective. If you heard in my prepared remarks, we've already notified the bondholders of $1 billion pay-down from some of the maturity schedules that are due this year, which only leaves us $500 million of scheduled maturities for the year.

So I think we're in good shape, Rod, and we'll continue to manage our way and be disciplined in the balance sheet. Tyler, would you add anything to that?

Tyler Johnson - Dell Technologies Inc. - Senior VP & Treasurer

Yes. Look, I think the only thing I would add is, look, I think we'll remain focused on working capital, right? I mean we did end at really good levels, right? I don't expect there to be a material shift as we work through next year.

So I guess the only other thing is, keep in mind also that Q1 a year ago, we did have some impacts from COVID to working capital, right? So obviously, we won't have those same impacts going into Q1 this year.

Operator

Your next question is from the line of Katy Huberty with Morgan Stanley.

Katy Huberty – Morgan Stanley, Research Division – MD & Research Analyst

Maybe, Jeff, what do you expect the shape of the recovery to look like in ISG this year, given that was a laggard in fiscal '21? And just any color around orders or the pipeline build that you saw in ISG that might build some confidence in a recovery.

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Sure. I will tell you, it's one of the questions Tom and I often sit back and reflect on inside the company as we look at our FY '22 plan, just how the ISG market responds. You've seen the market forecast there shows growth to be in both the server and storage sectors. We spend a lot of time trying to figure out and model what that looks like in terms of when and at what rate it comes back. It's still a little foggy, if you will, to call because if you look at the IDC forecast for storage, as an example, in Q1, it's negative. That said, I think there's some encouraging signs in our business.

If you recall in our Q3 comments, I think I made a comment that our server business accelerated throughout the quarter, and that momentum continued in Q4 to the point where our server business had, for the first time in 8 quarters, growth. That's encouraging. We saw in our server business, large bids respond back positively. Our small business and medium business sectors came back positively. So seeing growth in the server sector is, I think, very encouraging for us.

We saw growth in the high-value workloads. We're actually very excited about the progress that we've made in high-value workloads, seeing that growth being in, let's say, significant double digits, if you will, and increasing our share position in the most valuable workloads in the data center. I'm encouraged by that, and it clearly looks like server momentum continues.

Storage. Clearly, you've seen our results. We were down in the quarter, an improvement over Q3. We saw vast improvement in the midrange. The first time we've grown the midrange now in storage, I believe it's in 9 quarters. We grew midrange by 8% on the back of PowerStore. We had growth in both our PowerStore business, our HCI segment. We grew in our data -- our PowerProtect Data Domain segment. And we grew, which I think is equally important, in our all-flash array segment. So we had growth in those areas in our storage business. Obviously, still down, but I'm encouraged by the progress we've made in the midrange.

I think I made reference in our talking points about PowerStore is now up 4x what it was in Q3 and Q4. 20% of the customers are new storage buyers. Our win rate against the competition is up or tripled or up 3x, if you will. And I think that bodes well, given the progress we've made over the last 3 years, in consolidating the high end of the storage marketplace, where we've aggregated our share position by over 1,300 basis points to over 50% of the market in the high end. Now with the momentum we have in the midrange, the opportunity is to grow the sub-$250,000 segment, the midrange, and that's what we eye.

How to call that? Tom can weigh in here in a moment. We both spend a lot of time -- I don't know, which is probably -- you've seen some of the prudent outlook that we have for the year of when that comes back in our business.

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

No, I would just say, Jeff, that -- I would agree with that, Katy. I mean it's just trying to figure out the pace and timing, I think, is what we've been focused on, and it's a little unclear now. We clearly think the back half is better than the first half.

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Correct.

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

In terms of ISG velocity, just a question of that sequencing and the timing. So we're obviously going to be focused on it. And I think you've seen our history and our execution where we will drive where there's growth and take advantage of the market opportunities, but it's still a little bit unclear in terms of sequencing there.

Operator

We'll take our next question from the line of Tim Long with Barclays.

Peter Zdebski – Barclays Bank PLC, Research Division – Research Analyst

This is Peter Zdebski on for Tim. Congratulations on the quarter. (inaudible) if you could drill down a bit on the gross margin outlook into fiscal '22, specifically as related to component costs and any supply chain considerations there.

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Yes. Let me start, and then, Jeff, you should take the supply chain and component cost. So look, I think as we think about margin -- and I'm not going to go to gross margin. Let me just sort of think -- tell you about how we think about the bottom of the P&L, so to speak.

Look, there'll be some mix dynamics as we work our way through the year in terms of the CSG, ISG businesses. We also -- let me remind you that we've also added -- we are adding OpEx back into the business this year as we think about the -- some of the employee benefits that we've reinstated, like 401(k) match and some of the merit cycle. VMware is also investing in their business. And so they've got a heavier -- a bit more OpEx into the business.

So net-net, I would tell you that we do think there's a -- if we think about operating margin, we do think on a percentage basis, that it is -- it probably runs slightly lower than it did this year. And the absolute dollars are probably down slightly as well. So those are the things that we're working our way through.

Now, look, I mean, I think the reality is, is that we'll have to work our way through the year in component costs, which Jeff can highlight. This is going to be a dynamic that we're going to have to work through as well.

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Yes. Happy to weigh in on the supply chain and commodity cost dynamics. Clearly, in 2020, we ended the year as a deflationary year. Our view right now, as we look at 2021, Q1 is light deflationary. And then we believe, over the year, it becomes inflationary. What's driving that? We see, in Q1, SSDs continue to be coming down in costs, offset, if you will, by increased cost, what we see in LCDs and ICs that are driving some of the demand-supply shortages that we have in the marketplace today.

If I was to call out one specific thing, which we're keeping our eye on, is freight costs. Freight costs continue to be a challenge for us. So that's not exactly a component or a commodity cost that's part of our supply chain transformation. And while rates have, I think, eased a little bit, the fact is the industry is using, and we are using, more air. We're expediting more, and the air network is tight. So we continue to watch the cost increase overall in that area as well as steering into an overall inflationary year in calendar '21. But to be specific, deflationary in calendar Q1 -- fiscal Q1, excuse me.

Operator

We'll take our next question from the line of Toni Sacconaghi with Bernstein.

Toni Sacconaghi – Bernstein & Co., LLC, Research Division – Senior Analyst

Tom, you commented about full year '22 guidance being in the low to mid-single digits. But I think at spot rates, currency will probably help almost 2 points. Maybe you can confirm that. And you also talked about IDC and Gartner end markets growing at 5%. So putting those all together would be that you're kind of assuming share loss in 2022, and I'm wondering if you can reconcile that.

And maybe more specifically, I think there's always a lot of interest from investors about ISG. That's been the one business that has been up and down over the last 4 years. I think it's been down 3 the last 4. Do you believe that servers and networking and storage can grow at constant currency in fiscal '22? And is that sort of embedded in your guidance?

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Toni, so let me try and connect the dots with those multiple data points that you threw out. So look, I think as our -- our view right now is we think our way through fiscal '22. And let me start with the fact that, well, there are signs of optimism or -- in terms of ISG demand, we do -- we are being prudent, in my opinion, on when does that sequence in. So we'll take advantage of the growth opportunities that are there as they present themselves.

I think from a revenue framework, I would have you think about -- our range of thinking right now is roughly in that 3% to 5% from a revenue growth range with what we know today. Obviously, we'll continue to watch this and take advantage of the opportunities and continue to provide you our perspective as we think our way -- as we go through the year.

On a currency basis, I'll ask Tyler to jump in as well. Look, we do expect to get a bit of a tailwind from currency. I won't comment on the spot rate comment that you made. But...

Tyler Johnson - Dell Technologies Inc. - Senior VP & Treasurer

I think it’s fair.

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Yes. I think that's -- I think currency should be a benefit with what we know today. So Ty, would you add anything to that?

Tyler Johnson - Dell Technologies Inc. - Senior VP & Treasurer

Yes. No, look, I mean, I think definitely, we're seeing favorability there, and we'll see what happens over the course of the year. But I agree, I think we'll see some favorability.

Operator

We'll take our next question from the line of Simon Leopold with Raymond James.

Simon Leopold – Raymond James & Associates, Inc., Research Division – Research Analyst

I wanted to see if you could maybe discuss the impact of the semiconductor supply constraints, what you're doing to address, what we've heard across the board in terms of shortages. And if you can quantify if there was a revenue impact in the current quarter and in the April quarter, what you expect as constraint from just supply chain shortages of semiconductors.

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Sure. I'm not sure, Simon. I know exactly what you're hearing, but I'll at least illustrate what we're working through. And clearly, we've been maneuvering across our supply base for now the better part of 2.5 years. There are shortages, most notably for the past couple of years with microprocessors. I think we made mention of it at the end of last quarter, the notion of that's now impacting things like LCDs.

At the core of the issue is wafer capacity is taxed. There's been a number of substrate issues that have disrupted the supply. That has impacted particularly the 8-inch network. The 8-inch network makes a lot of the basic components that we all need in the industry from TCON, to driver ICs, to power ICs, to microcontrollers, card readers, codecs, you name it. Those are the types of issues we are working through as an industry. Certainly, Dell is working through that.

I think we've shown the ability to be resilient and responsive. At this point of pride, we shipped the most PCs we've ever shipped in Q3. We followed that up in Q4 by shipping the most PCs we've ever shipped in Q4. We had the best quarter in terms of absolute shipments and calendar (inaudible) more according to IDC. We just came off 50 million units of PC shipments in the calendar year. This is what we do for a living. This is -- there are challenges. I'm certainly not in denial about that.

If you look at the forecast that came out from IDC last night, there's certainly a lot of demand. And we have challenges to make sure that we get the supply for our companies. Again, it's totally new. We think our total buy helps us here. We think our long-term relationship with our supply base helps us here. We think our direct model helps us here by shifting demand to the components that we do get. But if you are hearing that there are supply shortages, you are hearing correctly. I hope it's across the areas that I described. And that's what we see, and we're navigating real time today. I hope that helps, Simon.

Simon Leopold – Raymond James & Associates, Inc., Research Division – Research Analyst

It does. Just to clarify, not an issue you're seeing affect your April quarter?

Rob Williams - Dell Technologies Inc. - SVP of IR

Simon, we're just going to go with one question. You can jump back into the queue and follow up if you'd like to.

Operator

Your next question comes from the line of Krish Sankar with Cowen and Company.

Krish Sankar – Cowen and Company, LLC, Research Division – MD & Senior Research Analyst

Congrats on the good results in de-levering. Jeff, I had a question on the storage front. You folks have done a great job in consolidating the storage product portfolio over the last couple of years. And you highlighted some share gains a few quarters ago. How should we think of that momentum going into FY '22? And where is your storage market share today?

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Lots of questions. Let me see if I can work through that. So we've largely spent the last 3 years simplifying and consolidating the portfolio into the Power portfolio that you would know them as PowerMax, PowerStore, PowerVault, PowerScale as the primary storage of vehicles. That's gone from -- I think I've quoted in the past of 88 different platforms consolidating that to roughly 20 across our portfolio. We've seen tremendous progress in consolidation in the above $250,000 product space. Over the last 3 years, I think I mentioned we've taken 1,300 basis points of share, have over 50% of the most valuable storage market.

The challenges that we had, which we've talked about at numerous of these calls, is midrange, which is the largest single portion of the marketplace. And PowerStore is the vehicle that we built, we launched in May and have been ramping through the year to begin to change our growth trajectory in that business.

I'm pleased to say midrange grew 8% in fiscal Q4, again, the first time we've grown midrange in 9 quarters. It's all on the back of PowerStore. The product is being received well by our customers. Again, over Q3, we grew 4x. We tripled the amount of competitive takeouts. 20% of the customers are new to the -- or excuse me, we doubled the amount of new customers. 20% of the customers are new to our storage business just for PowerStore alone. It is clearly the vehicle that we intend to take share with in fiscal '22, calendar '21.

I like the progress we've made, but we have work to do in front of us. Tom and I have talked about our, I guess, strategic impatience of we want more faster. We like how we've ended the year. We exit on a high note, and we have a big set of ambitions about taking share in the midrange and storage for PowerStore. Given the progress that we've made in unstructured, the progress we've made in the high end, this is the space for us to absolutely capture needed market share. We intend to do so.

Your last question, what's our market share? If memory serves me right, it's right at 28% from the last reported quarter from IDC, which was Q3. I believe. If I'm off by a couple of tenths, I'm in the zip code.

Rob Williams - Dell Technologies Inc. - SVP of IR

29.

Jeff Clarke – Dell Technologies Inc. – Vice Chairman & COO

Excuse me, I was wrong. 29. That's more -- I don't like being off that much. Thank you, Rob. I appreciate that. 29.

Rob Williams - Dell Technologies Inc. - SVP of IR

I rounded up.

Jeff Clarke – Dell Technologies Inc. – Vice Chairman & COO

Oh, you rounded up.

Rob Williams - Dell Technologies Inc. - SVP of IR

Rounded up to 20 basis points.

Operator

Your next question comes from the line of Wamsi Mohan with Bank of America.

Wamsi Mohan – BofA Merrill Lynch, Research Division – Director

Yes. Last year, about 12 months ago, you had expected fiscal '21 to look like fiscal '19 from an op margin rate perspective. Instead, it turned out to be quite different, for obvious reasons. As we look at fiscal '22, maybe can you draw a similar comparison, looking back at prior years, whether it's fiscal '19, '20 or '21, and talk about how we should think about the profile of fiscal '22? And if you can comment on order visibility trends relative to 3 months ago, that would be helpful, too.

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Wamsi, it's Tom. So let me try and sort of give you some context around it. As -- obviously, fiscal year '21 had a number of twists and turns and with the pandemic and the extraordinary growth in the CSG business and the work from home environment, along with the sort of the supply-demand dynamic, pricing has -- in FY '21 was relatively stable, which helped us from a margin perspective.

I think a couple of things to think about as we step into '22 and as it relates to sort of op margin, we do expect op margin to go down in '22 for a couple of reasons: One, think about the VMware stand-alone guidance, first and foremost, where their operating margin guidance is down; secondly, we have incremental OpEx going into the business, both from an employee benefit perspective as reinstates and benefits as well as some investments. So we do think from a operating margin percentage, that it will be less than FY '21. If you go back to an FY '20 context, for instance, I do expect that it will be lower than the FY '20 operating margin. So I do think you got to take that into account. But principally, you got to think about the VMware dynamic within our consolidation.

So -- and from that perspective, I think that, that's something you should be thinking about. So I think overall, we'll work our way through the year and take advantage of the growth vectors that are there, but we'll have to work -- there will be some challenges as we work our way through the year, as usual.

Operator

Your next question comes from the line of Amit Daryanani with Evercore.

Amit Darayanani – Evercore ISI Institutional Equities, Research Division – Senior MD

I guess my question is really going back to the free cash flow discussion. Really impressive free cash flow generation this quarter. I think you're back within your target leverage you've talked about. So I guess I'm trying to understand, how should we think about fiscal '22 free cash flow? What are kind of the puts and takes worth considering? And then do we expect to shift your capital allocation given all your macro commentary and the fact your leverage is within the target range now?

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Yes. Amit, look, I think we don't give a cash flow forecast per se. So I mean our cash flow generation will be, to some extent, dependent upon how the business performance drives, right? But look, I think we're optimistic about our cash flow and our -- the business overall as we work our way through the year and the cash flow generation as a result of that.

Our capital allocation policy is going to remain fairly stable in the context of focused on delevering. We've been pretty consistent on that. And what we have talked about is the fact that as we get to and achieve investment grade, then that allows us to rethink or relook at the capital allocation policy and broaden it out as we've talked about before in terms of how much of our capital do we want to vote to, to debt repayment versus some type of a shareholder return program as well as continuing to invest in the business.

So Tyler, I don't know what you would add, if you would add anything on FY '22 free cash flow. But that's how I'm thinking about it.

Tyler Johnson - Dell Technologies Inc. - Senior VP & Treasurer

Yes. I mean, look, I think I mentioned it earlier, just from a working capital perspective, we're not expecting any huge shifts in our CCC metrics, and there's nothing unusual. So Tom is right. I mean it will follow the shape of the P&L. But obviously, we feel comfortable with the $5 billion plus debt pay-down target that we're throwing out there. We've got cash on the balance sheet. We'll generate good cash flow.

And conversations with the rating agencies are all very positive. I mean I think quite frankly, my guess is, with all 3 of them, our performance for the quarter and for the year is better than what they had modeled. I think that we'll see what happens going forward for the year. We'll see what happens with VMware. Obviously, they're watching that closely, and that goes into their modeling and their expectations.

But we've got a little bit of work to do. We're at 2.5 using our metrics, and I think we want to get closer to 2, right? We're -- I think we're probably over half a turn inside of where S&P wants to see us. There are 3 crossovers. So we're probably sub-2.5 now. We're 2.5 with our metrics. We'll get Fitch and Moody's there, and we'll get (inaudible).

Operator

Your next question comes from the line of Shannon Cross with Cross Research.

Shannon Cross – Cross Research LLC – Co-Founder, Principal & Analyst

I was curious, given this is about the time when you look at your comp plans and maybe your channel strategy, what you're focused on for the coming year and what kind of changes you've made to both your channel strategy as well as your comp plans.

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Shannon, it's Tom, and then Jeff can jump in here as well. We haven't made significant change to our comp plans or channel strategy. We continue to refine them, focused on incentivizing the behaviors we want around driving our higher-value products and services and capabilities and making sure that our programs, both from a inside seller and Dell and team member compensation framework and our channel frameworks, are consistent.

So not a lot of change, to be honest, right? We've adjusted certain payout structures based upon focus and emphasis, which you might imagine, we continue to be focused on the ISG portfolio to a heavy extent. We continue to be focused on the -- our solution capabilities with VMware, and we're incentivizing those appropriately.

Jeff, I don't know if you'd add anything to that.

Jeff Clarke – Dell Technologies Inc. – Vice Chairman & COO

I'd just be real precise. Storage and the solutions with VMware, those high-value solutions between the 2 companies that help our company – help our customers with digital transformation. And Shannon, you've heard me say this before, storage, storage, storage.

Operator

Your last question comes from the line of Jim Suva with Citigroup.

Jim Suva – Citigroup, Inc., Research Division – MD & Research Analyst

Tom, you gave some really good commentaries on -- overall in your different business segments. I'd just like to ask 1 follow-up question on the storage business. You talked about how you've done a lot of consolidating of your products, and you feel like your portfolio is in really good shape. If we compare, though, your recent results to, say, NetApp and some of the other ones that just recently came out, though, your year-over-year sales decline is still lagging the others. So can you help me bridge the difference between your comments of the portfolio realignment and where you're positioning with the midrange? Or is it simply a lot of that positioning is yet to come in the future?

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Well, I think, Jim, part of the answer lies in do we have a very large, broad, diverse portfolio playing in all aspects of the storage marketplace. Not all of them grow at a similar rate. For example, I mentioned about the progress we've made in the high end. We've made tremendous progress in the high end. The high end of the marketplace, I think, will show that it slowed down quarter-over-quarter and year-over-year. Our exposure to that, as I mentioned, was half of the marketplace or half of the share is Dell share that has slowed down, that has an impact. Conversely, the area that is growing for us now is on the HCI side and the midrange side. We've had continued success with HCI, and that continues to this day and optimistic about that going forward.

But we've talked on this call about the challenges that we've had in the midrange. One data point does not make a trend, but we're encouraged that we had exited Q4, the fiscal year, with positive momentum in our midrange business. We have a lot of work to do there. We're optimistic. We think our product continues to hunt in the marketplace. It's doing very well. And I point to the things that keep us -- get us encouraged.

The number of competitive takeouts, I don't know what others had said, ours tripled quarter-over-quarter. The number of new customers on PowerStore doubled. 1 in 5 of the customers are new to the Dell storage business. It's 4x larger than it was the previous quarter. We clearly have momentum that we have to build, certainly, and great momentum we need to build from that into FY '22. We have large expectations in that area. That's going to be key to our absolute performance. We've made progress in unstructured.

So when I look at that, I'm optimistic -- back to one of the earlier questions. I believe it was from Katy. We're looking for the market to continue to rebound or respond, and that's how we're looking at our share and our business performance over the year.

Look, I'd ask you to go look at what product performance was in some of those results as well versus what our product performance was in the quarter and make those comparisons. That said, we're not satisfied with where we ended in Q4 and the year. It improved over Q3, and we have greater expectations in FY '22.

And back to the point that was made in one of the earlier questions, we run these businesses to outperform the marketplaces. We expect to take commercial PC share. We expect to take server share. And we're going to run the business to take storage share in calendar '21, fiscal '22.

Rob Williams - Dell Technologies Inc. - SVP of IR

All right. Jeff, if the last 2 questions didn't qualify where your focus was, I don't know what else we could do there. So I appreciate that. Thanks, everyone, for joining us. We'll be at Morgan Stanley next week with Jeff. We've got another other -- a number of other virtual events that we'll be hosting or participating in. And mark your calendars for Dell World -- Dell Technologies World on May 5 and 6. We will host a financial analyst Q&A event, of course, virtually at that. So thanks for joining us.

Operator

Ladies and gentlemen, this concludes today's conference call. We thank you for your participation. You may now disconnect.