

**DELL INCORPORATED**

**Moderator: Robert Williams**  
**June 4, 2018**  
**7:00 a.m. Central**

Robert Williams

Good morning and thanks for joining us. With me today is CFO Tom Sweet, our vice-chairman, Products and Operations, Jeff Clarke, and our Treasurer, Tyler Johnson.

We've posted our first quarter press release and our webdeck on our website. I encourage you to review these documents for additional perspective. Our Q1 10-Q will be filed on Tuesday, June 12th.

Before I turn it over to Tom, I'd like to highlight a few items.

During this call, we will reference non-GAAP financial measures, including non-GAAP revenue, gross margin, operating expenses, operating income, net income, EBITDA and adjusted EBITDA. A reconciliation of these measures to its most directly comparable GAAP measure can be found in our webdeck and press release.

Our Q1 non-GAAP operating income [excludes] \$2.2 billion of adjustments. The majority of these are non-cash and relate to purchase accounting and amortization of intangible assets. Please refer to the supplemental slides beginning on slide 21 for details on our non-GAAP adjustments.

Please also note that all growth percentages refer to year-over-year change unless otherwise specified, and that all financial results today are based on the new revenue accounting standard, ASC 606.

For historical recast financial information, including the full P&L, please see the slides in our webdeck beginning on slide 28, and for more detail on ASC 606, please refer to our April 26th investor call. The replay and slides are available on our Investor Relations website.

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 cautionary statement section in our webdeck. We assume no obligation to update our forward-looking statements.

Finally, I want to mention that we will not address, nor will we take questions related to the amended 13D we filed on February 2nd or the 8-K filed on May 17th.

Now, I'll turn it over to Tom.

Tom Sweet

Thanks, Rob.

We had a strong first quarter with balanced growth across all business units, regions, and customer segments. Our broad set of capabilities and Better Together philosophy drove top-line momentum and improved profitability. We generated seasonally strong operating cash flow and continued to pay down debt, even as we drove improved profitability. The velocity in server, client and VMware that we saw building last year has continued into FY19 and we're making progress in storage.

In addition to the broad strength across the business during Q1, we hosted 14,000 customers, partners and industry analysts at Dell Technologies World and introduced a new slate of solutions, which Jeff will touch on more in a moment.

We rolled out the Dell Technologies Advantage framework that provides tools and incentives to help channel partners sell solutions and services across our entire portfolio of brands.

We launched the initial public offering for Pivotal Software, raising approximately \$540 million that will stay at the Pivotal level for their general corporate needs and to fund future growth initiatives.

And the cross-selling between our family of companies continues to be strong.

These points are all positive indications that we are Better Together as we continue to drive market-leading integration of our software, software-defined data center, and hardware capabilities to drive innovative solutions for our customers in this digital era.

Now, let me provide more details on the results for the first quarter.

GAAP revenue for the quarter was \$21.4 billion, up 19 percent, with a GAAP operating loss of approximately \$153 million.

Non-GAAP revenue was \$21.5 billion, up 17 percent, driven primarily by double-digit growth in commercial client, servers, storage and VMware. We are seeing better market conditions driven by improved global macroeconomic sentiment and improving IT demand driven by digital transformation. We are also benefiting from the investments we have made in our go-to-market and solutions capabilities.

Gross margin was up 19 percent to \$6.9 billion, and was 32.1 percent of revenue, which was up 50 basis points, driven by improved gross margin in client solutions and a higher mix of ISG revenue.

While component costs were slightly deflationary in aggregate for the quarter, they remained a headwind for servers due to DRAM cost increases. Along with the rest of the industry, we continue to face a cost environment where DRAM costs continue to rise, albeit at a slower rate than in the prior year. We expect DRAM costs, particularly server DRAM, to remain a headwind through much of the year, though we are expecting some offsets in other commodities to mitigate the overall inflationary impact.

Opex was \$4.9 billion, up 12 percent, and was 22.7 percent of revenue, which was down 110 basis points as opex scaled at a slower rate than revenue growth.

Operating income was up 42 percent to \$2 billion, or 9.4 percent of revenue, up 160 basis points.

Cash flow from Operations was \$1.2 billion and adjusted EBITDA for the quarter was up 33 percent to \$2.4 billion or 11.1 percent of revenue.

Please see slide 22 in the webdeck for more details on our EBITDA adjustments.

Turning to the business segments, revenue for the Infrastructure Solutions Group was \$8.7 billion, up 25 percent. The increase was driven by a 41 percent growth in servers and networking to \$4.6 billion and 10 percent growth in storage to \$4.1 billion.

We continue to see extraordinary demand for PowerEdge servers, coupled with ongoing expansion of our average selling prices, both of which drove our sixth consecutive quarter of server revenue growth with double-digit growth from both PowerEdge and Cloud servers. Customers continue to look for more memory and storage content in servers, given the shifting workloads focused on running big data analytics and software-defined solutions.

We exited last year with better storage velocity on a demand-basis, leading to double-digit revenue growth in Q1. We were encouraged by the improved demand in the commercial mid-range portion of the storage market where we've been making go-to-market investments and enhancements to our solutions offerings.

Operating income for ISG was \$939 million or 10.8 percent of revenue, which is a 350 basis point increase over the prior year, primarily due to improved storage performance and operating expense leverage.

Revenue for our Client Solutions Group was up 14 percent to \$10.3 billion, with broad strength across the portfolio. Commercial revenue grew 16 percent to \$7.4 billion, with double-digit unit growth and higher average selling prices for notebooks, workstations and thin client. Consumer revenue was \$2.9 billion, up 7 percent, primarily driven by mix shifts to XPS products and personal notebooks.

CSG Operating Income was \$533 million, up 64 percent and was 5.2 percent of revenue. We benefited from a higher mix of commercial and the team continues to execute our attach motion with higher-margin services and S&P.

The VMware segment had another strong quarter, delivering \$2 billion of revenue, which was up 12 percent. Operating income was \$613 million, or 30.2 percent of revenue. Based on VMware's standalone results reported last Thursday, the company saw double-digit license bookings growth in compute, management, end-user computing, NSX, and vSAN/vXRail.

Revenue from our Other Businesses, which includes RSA, Pivotal, Secureworks, Virtustream, and Boomi was \$579 million, which was up 9 percent.

Now, turning to the balance sheet and capital allocation.

Deferred revenue was \$21 billion, up approximately \$140 million from the fourth quarter and up 3.3 billion year-over-year, driven by an increase in software and hardware maintenance given the growth we're seeing across the business, as well as growth in our flexible consumption models. We believe this growth is a positive indication that our business model is evolving as we offer more software and services solutions across the family of businesses.

Our cash and investments balance was approximately \$21.7 billion, growing sequentially by \$1.4 billion.

In Q1, we generated positive cash flow from operations of \$1.2 billion. Our first quarter tends to be our weakest in regards to cash generation, but this quarter's cash flow benefited from the better profitability, and strong working capital management.

Our customers continue to benefit from Dell Financial Services and the flexibility it provides through a variety of financing solutions, including flexible consumption models. We fund this business predominately through a combination of securitization, syndication, and loans, all collateralized by high-quality financing receivables. Since closing the EMC transaction, originations are up 50 percent, financing receivables are up \$2.6 billion or 51 percent, and related DFS debt has increased \$2.3 billion, including allocated debt.

During Q1, we paid down approximately \$600 million of core debt, bringing our core debt balance to \$39.8 billion. Total debt was \$52.7 billion, which did not materially change compared to the prior quarter due to an increase of approximately \$600 million in DFS debt.

For additional detail on what is included or excluded in our debt balances, please see slide 20 of the webdeck. Net core debt, which is core debt less cash and investments excluding VMware and Pivotal, ended the quarter at \$31.7 billion.

As you know, we grew our cash balances ahead of \$3.1 billion of scheduled debt maturities due in the first half of this year. Last week, we repaid \$2.5 billion of a legacy EMC investment grade note. Including this maturity, we've now paid down approximately \$13 billion of gross debt, excluding DFS and subsidiary debt, since the closing of the transaction.

I am pleased with the progress we've made on debt repayment, while continuing to invest in the business. We're financially strong and comfortable with our ability to pay down \$5 billion in total debt this year. This is as planned, we are on track, and we are using our existing cash-generation vehicles.

Now, let me turn it over to Jeff to walk you through the operational highlights for ISG and CSG.

Jeff Clarke

Thanks Tom, and good morning everyone.

As Tom said, we had a strong first quarter. We successfully balanced growth and profitability, delivering double-digit revenue growth and share gain across ISG and CSG, while growing operating income faster than revenue.

ISG had a good quarter. The momentum we saw for server revenue and units in the second half of FY18 continued into the first quarter where we saw double-digit growth for both. Server ASPs continue to expand due to compute requirements and more richly configured servers associated with software-defined data center solutions and mission-critical activities and workloads, such as data analytics, artificial intelligence and machine learning. Over the last five quarters, memory content in servers has increased nearly 30 percent and storage capacity has increased 11 percent.

Our strong server performance has helped us become the worldwide leader for x86 servers based on units and revenue.

Storage had a solid quarter as a portion of the Q4 demand we told you about on the March call shipped in Q1. Following positive demand growth in our fiscal fourth quarter, we expect to gain share year-over-year in storage when the first quarter industry share numbers are final. This will be our first quarter of storage share gain since we closed the EMC transaction.

For Q1, overall storage demand was lower, but Q1 is our seasonally lowest quarter as we build through the rest of the year. We did see strong demand for our market-leading hyper-converged portfolio and other software-defined offers as customers are looking to modernize their data center, including triple-digit growth in both our VxRail and VxRack offerings. We also saw positive demand in our commercial customer segment with positive growth in mid-range storage.

Hyper-converged, software-defined, and mid-range are areas where we have made significant investments over the past year, including several hundred million dollars on sales capacity and R&D around hyper-converged infrastructure and software-defined data center.

As most of you know, we have taken several steps over the past few months to improve storage, which include launching our new PowerMax storage solution, aligning our software-defined storage strategy to vSAN, and releasing product updates for Unity, SC, and XtremIO X2. We also launched our Future Proof Storage Loyalty program covering our storage portfolio.

This quarter's results are an indicator that our actions are having a positive impact. We continue to be focused on improving storage velocity and acknowledge that results may be lumpy quarter to quarter. That said, our FY19 storage plan is built on revenue growth and deliver share gain over the full year.

Turning to CSG, growth was driven by double-digit growth in commercial notebooks and workstations, high single-digit growth in commercial desktops, and continued strength in Software & Peripherals. This was on the back of better-than-expected industry commercial growth worldwide, per IDC.

In total, we gained 100 basis points of worldwide PC unit share, marking our 21st straight quarter of share gains. Our year-over-year unit growth was above the industry and was the best of the top five vendors.

Total workstation units for the industry grew nearly 10 percent worldwide in calendar Q1 with growth in all regions. Dell grew above the industry with 11 percent growth and is the industry-leading provider of workstations worldwide with 41 percent share.

Client Software & Peripherals continues to be strong, and we saw another quarter of double-digit growth in Displays and Client Peripherals. Based on Q4 data from DisplaySearch, Dell gained 110 basis points of unit share, marking the 19th consecutive quarter of being number one worldwide.

At Dell Technologies World, we emphasized the five biggest technology trends driving IT transformation needs for our customers globally, and our products and solutions strategies. These include immersive and collaborative computing such as edge computing, augmented reality and virtual reality; Internet of Things or IoT; hybrid or multi-cloud; software-defined data center; and artificial intelligence or AI and machine learning.

We are focusing our immense IP portfolio and significant engineering capability to deliver innovative products and services that are cloud-first enabled and maximize the opportunity our customers have in AI and Machine learning as part of driving better business outcomes through data intelligence.

Also at Dell Technologies World, we launched several new solutions including:

The PowerMax, the future of enterprise-class storage and our new high-end storage line featuring end-to-end NVMe aimed at next-generation use cases like real-time analytics, genomics, AI, machine learning and IoT;

The PowerEdge R940xa, built for high-performance AI and machine learning workloads, supporting up to eight pre-programmable gate arrays;

The PowerEdge R840, built for real-time data analytics that can support up to 24 direct-attached NVMe drives;

And the PowerEdge MX, available later this year, modular in nature and built for the emerging data workloads.

It's worth noting that all of these PowerEdge innovations are NVMe and NVMe-over fabrics ready as part of a holistic data center solution.

In addition, we launched enhancements to our XtremIO X2, including native replications and our VxRail and VxRack, which are now on our 14th Generation servers and offer a clear path to adopt VMware-based multi-clouds.

Next, I wanted to provide an update on the ISG organization and storage roadmap.

I shared with you on the last call we've simplified the ISG organization, aligning leaders and product categories more effectively for improved speed and accountability.

Since then, we have started simplifying the portfolio into a roadmap squarely directed at meeting customer needs and winning in the market. We will offer a single, industry-leading solution for every segment in which we compete, including entry-level, midrange, high-end, and unstructured. Those solutions will pull forward the best features and innovation from our current portfolio, plus new innovation to ensure we are offering the industry's best solutions. PowerMax is a perfect example of the product simplification we want to achieve.

Those efforts are all designed to drive more efficient R&D and accelerate innovation to better capture the power of our intellectual property, marketing engine and sales force.

And let me be clear, we are not exiting any market and all of the products on our current roadmap will continue to be supported over their lifecycle. Customers can rely on our Future-Proof Loyalty program to ensure anything they buy will be supported and that we will provide a seamless transition to our next generation products.

In closing, we are the market leader in all the IT infrastructure categories in which we compete in, we are Better Together, and we are the trusted partner in the data center with our world-class sales force and focus on innovation.

For Dell Technologies, we spend more than \$4 billion on R&D each year, and more than 80 percent of our engineers are focused on software. Going forward, we are focused on driving a roadmap that showcases our

differentiated portfolio, with the integration of our solutions and value of our industry-leading software, services and multi-cloud capabilities.

With that, let me turn it back over to Tom.

Tom Sweet

Thanks Jeff.

Roughly twenty months since the EMC transaction, we have many things going well, including client and server velocity, VMware's growth, and our strong cash flow performance. We saw broad-based revenue growth, market share gains, and improved profitability across the business.

And while we're pleased with Q1 storage revenue results, we still have work to do to expand the storage customer base and ensure the market understands our solutions, architectures and roadmap. We are taking the right long-term steps, but we expect progress to be a multiyear journey.

We're simplifying the roadmap over time and backing all of our products by the best-in-class Future Proof Customer Loyalty program that ensures investment protection and a seamless, non-disruptive path to the simplified portfolio of the future.

We've also made significant investments in expanding our go-to-market coverage as we've hired several hundred new storage sales specialists. Across the Dell Technologies family, we have approximately 40,000 sellers, plus an industry-leading channel program, designed to drive coverage across 180 countries.

As we head into the remainder of the year, the setup continues to look favorable as the macroeconomic and IT spending environments seem promising and overall commodity costs increases are starting to abate. Based on our latest analysis, tax reform does not appear to have a material impact on our cash tax rates. Our balance sheet is strong and we are confident in our plans to continue driving cash flow and debt reduction.

We believe we are well-positioned heading into the rest of FY19. We will look to keep up the momentum we've seen and continue to execute our strategic areas of focus for the remainder of the year. As a reminder, these areas include:

growing above the market and driving share gains, which you saw in Q1 with share gains for PCs and servers and expected share gains in storage when the data is released;

generating strong cash flow and de-levering the balance sheet, where you saw us deliver above-seasonal cash flow this quarter and make progress on debt pay-down with \$3.1 billion of gross debt payments made this year;

executing in ISG and driving profitability by balancing growth and margins, where we made some positive strides in Q1;

and last, but certainly our most important area of focus, we will delight customers by listening to and addressing their needs for their digital transformation journey through our full range of capabilities.

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

Robert Williams Thanks, Tom.

Let's get to Q&A.

We ask that each participant ask one question, with one follow-up if you have one.

Regina, can you please introduce the first question?

Operator We'll take our first question from the line of Jeff Harlib with Barclays. Please go ahead.

Jeff Harlib Hi, good morning. So exceptional performance in ISG. Can you talk first with servers, just the acceleration of revenue growth there, how much of that is market driven, how much of that is execution and share gains?

And then in storage, with revenues up 10 percent, a big turnaround there, how much of that was the flexible consumption model benefit you received? You mentioned orders were down a little bit. Maybe go through where you are on all these initiatives to achieve your goal of revenue growth in storage this year.

Tom Sweet Hey, Jeff, it's Tom. Let me start, and maybe Jeff Clarke can jump in here in a few minutes. But, look, on servers I think we're clearly pleased with the velocity we're seeing in that piece of the business. Obviously, the macro is strong. And we've talked about this before, Jeff, that as you think about what's happening in the data center and some of the trends that we're seeing, there's clearly a trend towards a compute centered platform, whether that's software-defined or hyperconverged. We're also seeing the benefit of some of the workload migration with big data analytics and those types of capabilities that customers are clearly valuing.

So we have the strongest compute platform in the industry. So we continue to turbo charge that business. We've invested in it. The 14G capabilities that we've rolled out are quite strong.

And so look, we're pleased with where we are. We're going to continue to focus on the velocity of that business even as we balance margin. So I tend to think that we're benefiting from both the market, but I also think that we're executing reasonably well in that space, and there's always things we can do better, but feeling pretty good about the trends in the business that we're seeing.

As it relates to storage, we did have a good, strong storage revenue quarter. So it was up 10 percent on a shipped basis. As a reminder, if you just think about historical patterns in the business, the legacy EMC business tended to ramp velocity and revenue as it went through the year. So Q4 seasonally was always their strongest quarter. And that's clearly what we saw last year with the storage demand. And then it steps down in Q1. And so that's why you heard us talk about within our conversation the fact that seasonally Q1 is the lightest quarter, and then it continues to build from there.

So we're optimistic about storage for the year. We expect to -- we have a take share plan, a grow revenue plan for the year. It will be, I think, a bit variable as we go through the quarters.

And as it relates to the flexible consumption model, it was a pretty light quarter for flexible consumption models, down significantly from Q4, which isn't unexpected given that these have a long cycle, they're a long sales cycle activity.

And, again, what I think we'll see is we'll expect those two to build as we go through the year.

I don't know, Jeff, if you would add anything there.

Jeff Clarke

I think the highlights, when I look at servers, we talked about content being up, the mix is up, our 14G mix is up, the resulting ASP is up, software-defined, the different mission critical workloads that we're taking on as we're selling deeper into the data center, data analytics, machine-learning and artificial intelligence workloads being driven into the business.

I think the one that maybe, Tom, that you didn't mention which I'm excited by is the synergies of the combination continue to work for us. The doors being opened in the largest accounts for our server business continues to be an accelerant for the business.

And then on the other side, you talked about storage. You hit the enterprise phasing. We mentioned in the remarks our commercial orders growth for the quarter was up, which to us is beginning to show signs of the investment that we made in selling capacity in the second half of last year is beginning to show positive signs, and we're encouraged by that as well.

Does that help, Jeff?

Jeff Harlib

Yes, very much. Thanks. And just on margins, you said overall commodity costs were deflationary in the quarter. Maybe just talk generally about obviously you've seen significant revenue growth, but when we look at EBITDA margins, some of the puts and takes, it looks like you should be about completed with the cost reduction program you talked about. You've been reinvesting in the business in various areas. And then you talked about commodities. So how do we look at that?

Tom Sweet

Look, I think overall, I think we expect commodity costs for the remainder of the year to be pretty sort of neutral to down. We're going to see some pressure in server DRAM as we go through the year, just given the demand that's out there for that commodity. But the other basket of commodities, I think we're expecting that to be slightly deflationary. So overall I don't think we see significant headwinds in the commodity cost area. We'll have to see how this evolves as we go through the year. But I think it's clearly a better environment than what we were in in the previous year in terms of trying to manage our way through the commodity cost upticks that we saw a year ago.

Let me also hit on the EBITDA margins, right, because if you think about our historical pattern, Q1 should be our seasonally low EBITDA margin, and then it should build from there. And so I'm actually pretty pleased with what I saw from an EBITDA perspective, and with 11.1 percent margin versus a 9.8 a year ago. So 130 basis point expansion, and I would expect as the business continues to perform that we'll see expansion in that.

The other interesting stat that I've been looking at, if you look at our trailing 12-month EBITDA, and we're now sitting at \$9.7 billion, which I'm pleased with the progress that we've made there. So there's always work to do, Jeff, and we're going to continue to try and optimize the business as we talked about in terms of making sure that even as we drive server velocity, we're balancing margin growth, margin dollar growth. We're very focused on storage and data protection velocity. And we'll continue to work on growing at a premium the market.

So we are trying to balance a number of levers here as we work our way through the remainder of the year.

Jeff Harlib Great. Thanks very much.

Operator We'll take our next question form the line of David Eller with Wells Fargo.

Please go ahead.

David Eller Good morning. Thank you for taking the call.

Tom, you talked about commodities being neutral to down for the remainder of the year, did I hear that right? Were you saying that you expect that to be overall net to down?

And then back to your comment on the EBITDA seasonality and the EBITDA margin, were you specifically saying you do expect EBITDA to continue to build throughout the year or was that EBITDA margin you expected to improve?

Tom Sweet Well, look, on the commodity side, we are -- our best look at it right now says it should be neutral to slightly deflationary in aggregate for the year.

Tyler Johnson Yeah, the entire commodity cost pool we think is slightly down to offset the increase in DRAM.

Tom Sweet Yeah, there's puts and takes. DRAM is going to be a pressure up. So that's going to be inflationary, although we think that rate of increase is at a slower rate than a year ago, so it's slowing, but there is pressure on that commodity. And then the other basket of commodities should be deflationary enough to sort of offset most if not all of that DRAM pressure. So that's how we see it right now. Now, we'll see how it evolves as we go through the year, but that's based upon our latest view.

On the EBITDA, my point was as follows, if you look at our pattern on EBITDA over the last year, Q1 was seasonally our weakest quarter, and then it built. So my point was on a percentage basis I expect to see EBITDA percentage margins to continue to build from Q1.

Tyler, would you say that differently, or do you have a different perspective on that?

Tyler Johnson No, no. I think that's exactly right.

David Eller Okay. That's great color.

And then on the prior call you talked about kind of the demand growth that you were seeing in the storage business and how that turned positive. How should we think about those trends that you saw in Q1 and maybe in the early Q2 have those accelerated even further?

Tom Sweet

Look, our expectation with Q1 was going to be seasonally weaker than Q4 just given the historical seasonal patterns. And we did see that. So although we had a strong shipped quarter, storage demand was down from where it was in Q4.

Now we do expect that it will continue to build from here as the investments that we've been talking about with the go to market and what we've been doing with the portfolio, we'll continue to begin to realize benefit from that as we go through the year.

So that's why you heard us talk and frame the year like this, which is we expect to grow and take share for storage for the entire year. But I do think it's not going to be linear and to the right, it's going to be a little lumpy.

And so our expectation is that we are very focused on driving velocity of that business and ensuring that we get that business back to a share gain position.

Jeff would you add anything to that?

Jeff Clarke

What I would add is we're one quarter into the new compensation system. We're encouraged that it's put the right focus on storage. We know the lumpiness of our demand that you mentioned, Tom. So I think we have compensation heading in the right way and how we incent our sales force.

And then we have we're building out capacity and coverage and we'll build productivity over the year and, again, as we mentioned, what we saw in the commercial business is encouraging. I would also say we have one data point on a curve, if you will, or on the beginning of a line. We need a second data point and a third data point to draw a trend. And that's certainly what we intend to do in Q2, get the second data point.

David Eller

Great. Thank you for taking the questions.

Operator

Our next question will come from the line of Frank Jarmin with Goldman Sachs. Please go ahead.

Frank Jarmin

Okay, great. Thanks for taking my questions, guys. Just to focus on the CSG segment for a minute, so revenue growth was obviously up nicely, 14

percent year-over-year and you guys gave a couple of data points around gaining 100 basis points of worldwide unit share. But when I think about just the broad math around getting to the 14 percent growth, can you help us think about volume versus growth and especially in the context of how to think about the broader sort of global PC market? I think Gartner had reported it was down around 1.4 percent in 1Q. So how do we just make the math work in terms of looking at your growth and thinking about ASPs versus volumes and share growth? Thank you.

Tom Sweet

Let me start and then maybe Jeff can jump in, as well.

So look, I mean from our perspective, and we tend to look at IDC, the IDC market came in at minus .2 percent versus a forecast of minus 1.5. So the market was a bit better than how it was originally planned. But if you think about the drivers of our growth I would tell you that our commercial units were up 12 percent year-over-year. Our ASPs were relatively flat in the PC space from Q4 to Q1, which I actually think is a win, given some of the mix dynamics.

So, look, it's unit velocity. We're very focused as we've talked about in the past on commercial client. That is where we want to make sure that we're continuing to drive and take share, which we did in Q1.

Don't forget also that we have a very strong S&P, software and peripheral business. And so one of the things we've talked about over the years is the fact that with our direct selling model our ability to attach is a differentiated selling model from our competitors. Again, and you saw things like I think we're now number one in displays for the 19th consecutive quarter.

So, again, we're focused on unit growth, expanding the customer base, ensuring that we're attaching where we can attach and improving overall profitability of that business as we continue to drive velocity. And so I'm pretty happy with the unit velocity in commercial. I think it shows the right focus and the right balance. And we're going to continue to drive the business.

Jeff?

Jeff Clarke

I think you hit the high points. Our commercial unit growth was strong and then it was strong in areas that we carry higher ASPs, so Latitude notebooks, Precision workstations both grew double digits. Those carry higher revenue per unit, higher margin per unit. And that's certainly what we're seeing in the business.

You hit the other high points, Tom, that our attach motion of selling services, financing, and peripherals hit double digit growth of both display and our S&P business, in our accessories particularly in the attach motion. That's the recipe of our CSG business -- to take each and every opportunity and attach something to it. And we're doing that quite nicely.

Tom Sweet

I think it is fair to say that seasonally from Q4 to Q1 we're still trying to think our way through the new seasonal patterns of these combined businesses now. We saw less sequential decline quarter-on-quarter than what we had originally anticipated. And so I think that speaks to the overall strength: 1) of the market; 2) some of the execution focus that we've been working on.

So the quarter was clearly stronger than what we had originally thought, it was going to be as we stepped into Q1 and pleasantly surprised, obviously at that. And we're going to just continue to execute and focus on taking share in the appropriate space.

Jeff Clarke

I think that's right. When you look at CSG in particular the market was better, the commercial market was particularly better. The market continues to consolidate, and we're winning in that consolidation. That's our focus.

Frank Jarmin

Thanks for the color there and then just one sort of other question. So since you broke them out, and given the recent Pivotal deal, can you talk at all about your strategy with the other businesses that you identify on slide 16?

Tom Sweet

Look, I mean I think what you would see with those businesses is that we tend to call those our growth businesses and I'm going to be careful here, because both Pivotal and Secureworks have not released yet.

But I think all of those businesses give us access and are interesting areas of what we see with the technology market in terms of whether it's security with RSA and Secureworks, Pivotal with the cloud native application development platform, Boomi with the ability to -- the IaaS sort of platform, and then Virtustream for those mission critical workloads that want to be in a cloud.

So they're all interesting areas of what -- of certain aspects of some of the technology market. And so we're focused generally on nurturing those businesses, growing those businesses. We're investing in those businesses. And so our strategy is going to continue to put capital towards them where appropriate to help drive velocity.

And what's interesting is that they benefit from the overall reach of Dell Technologies, right. If you think about our 40,000 sellers, our ability to cross-sell across the platform, our ability to introduce some of these interesting technologies and capabilities to our broader set of customers, it's a huge advantage for us from a leverage perspective and we're going to continue to focus on that.

Frank Jarmin           Okay, great. Thanks very much, guys.

Operator                Our next question comes from the line of David Phipps with Citigroup.  
  
Please go ahead.

David Phipps           Hi, thank you for taking my question and congratulations on having a bang-up quarter in what is easily the weakest quarter. Can you talk about some of the things that positioned you in the storage market for this quarter and kind of how everything came together? It's certainly been an area of focus and it seems like it's come through pretty nicely this quarter for you.

Tom Sweet              Look, I think we did have a strong shipped revenue quarter. But again, that was off the back of a strong Q4, a better Q4 demand number I should say. I think Jeff deserves a fair amount of credit here, he's been focused on how do we drive the operational execution, coupled with the coverage model expansion that we've been focused on.

So, Jeff, maybe you could jump in here.

Jeff Clarke             I appreciate the comment. I would basically start with we're still in the early innings. We are, I think, encouraged by the results. Clearly we talked about our Q4 exit velocity. We talked about you sell the performance of our 10 percent revenue growth and our shipment in the fiscal quarter. So we're pleased with that.

We're pleased with the commercial growth in demand. We talked about the lumpiness of the big buildup of our enterprise business and its seasonal or seasonality going into Q1. We're working through that.

And then it's about focus. We're focusing the organization. Tom and I have spent a lot of time with the team and driving capacity and coverage. We're continuing to invest in capacity and coverage. We fully intend to grow the storage business and have a lot of focus on that. We have aligned a sales compensation system beginning February 1st, the beginning of the fiscal year, that emphasizes selling storage.

One quarter in and I think Tom and I would reflect and go good progress. Clearly enterprise business built over the entire fiscal year. So we have work to do in the next three quarters. But we're encouraged. We've put a lot of focus in the marketing side. If you've watched some of the I think tightening of our market programs and our marketing message, leading to Dell Technologies World and what we talked about at Dell Tech world and what we're doing in storage and the broader enterprise and infrastructure I think you're seeing a concise message there.

We're clearly front and center with the cloud and how our infrastructure is going to be used in the cloud and what we're doing in regards to our infrastructure to be more cloud friendly.

I spend a lot of time on the product side focusing on the product organization. I'm very pleased with the progress that we've made in the first eight-and-a-half months. We have the organization very focused. You've, I'm sure, read a lot about us simplifying the roadmap. IT's been a focus of the organization. We're at a point now where we've defined our next products. And the reception from our partners and our customers has been overwhelmingly positive.

Again, when I talk to customers and I said, "would you rather buy four mid-range products or one and the right one with all of our best IP -- the answer is overwhelmingly positive to the degree of 100 percent we'd prefer to buy one product that's the right product with all of the Dell EMC technology and IP in it." That's exactly what we're going to go build and are building while providing our customers a transition from their current products to the new products.

So we've said in this, despite what may be being said by others, our products on the roadmap today are supported throughout their lifetime. Period. And we will provide a nondisruptive migration from the old product to the new product. We're encouraged by that every time we trial that by our partners and customers, basically -- "Jeff, we can buy what we're buying today, and when you have the new thing ready, we can seamlessly migrate to the new thing. Yes, sir, that's correct." It's received very, very positively.

And then, although I struggled with it earlier in our call, our loyalty program is winning the hearts and minds of our customers. We are protecting our customers going into the future with a series of programs that help our customers, again, choose Dell EMC and feel confident with that decision.

So that combination of things, again, early innings, encouraged a tremendous amount of focus on the storage portfolio, the storage business.

Tom and I talk about this at least a couple of times a day, and that's where our focus is.

Did that help?

David Phipps

That's very helpful, thanks.

And then my follow-up question is on the Dell Financial Services. When you looked at the Dell Financial Services, we would expect that to continue to grow with sales. Is there anything that we might think that it should grow differently given an improving storage or server business?

Jeff Clarke

Look, DFS exists primarily to enhance and provide our customers with financing options and capabilities to facilitate the sale of Dell Technologies solutions and products. And so I think over time you'll see the origination growth sort of begin to mirror more the overall growth of the core business and the various businesses.

We're clearly benefiting from putting the Dell EMC together. The fact that EMC did not have a captive finance subsidiary, and so tapping into that sales motion at VMware and the legacy EMC customers and optimizing the opportunity to provide financing services to them is what we've been doing over the last year. And you can see some of the statistics.

Origination is up 52 percent year over year in the first quarter, and financing receivable is up almost 30 percent since year over year. Our managed asset base almost -- a little over \$8 billion now. And so it's clearly grown pretty rapidly. But I do think overtime we'll begin to settle back into more sort of growth that is a bit more mirroring of what the core business growth looks like.

But I'm pleased with the performance there. It's a good profit contribution for us. It's a good enabler for our business. It provides our ability to do flexible consumption models and do some of the flex on demand and some of those types of cloud-like economic financing models that we've been talking about and are driving.

And the other dynamic you've got to think about is that as that business comes back into more sort of normal growth profile, I think the growth and the related DFS debt will settle down and be more in that range as well.

So Tyler, I don't know if you would add anything from a DFS perspective that maybe I missed?

- Tyler Johnson I think you answered that. It was a good, detailed answer. I don't think there's anything more that I can add.
- David Phipps Thank you. Those are all my questions.
- Operator Our next question will come from the line of Shannon Cross with Cross Research.
- Please go ahead.
- Shannon Cross Thank you very much for taking my question. I'm curious, when Jeff and Tom, when you look at what's going on in terms of your share gains and obviously the significant growth you've had in server and then the improvement in storage, what kind of competitive responses are you seeing out there? Because clearly some of your competitors haven't quite reached the level of growth you have. So I'm curious as to what you're hearing from your competitors? And I have a follow-up. Thanks.
- Jeff Clarke Well, I'm not sure I'm hearing anything from my competitors. I'm focused on our customers and our opportunities and certainly the agenda that we've put in front of you. I look at the server business and what we're doing there, and the customers and partners I've talked to, they're very encouraged in what we're doing, and we seem to be differentiating ourselves in the marketplace.
- Our execution, our performance, the portfolio of our products, the ability to sell an end-to-end story from the edge to the core to the cloud, the leadership technology that we have in our 14G products and what we'll do in the next generation. The products that we just announced at Dell Technologies World have been received very, very well. Our leadership position in artificial intelligence and machine-learning. I feel pretty encouraged about that.
- On the storage side, again, I talk to a lot of customers, I spent a lot of time with customers at Dell Technologies World and partners and talked about our roadmap. And certainly what's resonating very well with them is the roadmap decisions that we have made are all customer-driven. The intersection of what our customers need to what we see as the upcoming technology roadmap and opportunities, they respond well to taking the complexity out of our roadmap, that we're listening to how they deploy infrastructure. The fact that we're standing behind those products, nothing is going away.
- And probably the more overwhelming reaction I get to this comment is, we're bringing the entire DNA of our products and people in a more

focused way to drive innovation and put new technology in their hands, they get real excited about that.

To be honest, I don't spend time thinking about how my competitors are responding to that. We know what we need to do. We're very, very focused. We have a wealth of riches in this organization, a tremendous amount of IP, a large number of engineers who have been doing this a very long time, they are more focused than they've been. I like our hand.

Tom Sweet

Hey, Shannon, it's Tom. I think Jeff said it well in terms of what he's focused on. I would tell you from a pricing and overall sort of competitive market perspective, look, I mean, as you know the markets and the businesses that we compete in are clearly always competitive, but I would say that the pricing environment is generally unchanged from Q4, relatively benign, meaning it's always competitive, but I don't see anything abnormal out there. I don't see any abnormal responses or out of the ordinary responses, at least from what we can see in the marketplace.

Now, there's always pockets around the globe where you see some form of aggressiveness, but overall, I think the industry has had to digest a pretty tough commodity cost environment, particularly in client and in servers over the last year. I think we're coming through that. And then it gets down to feature set capabilities and competitive positioning, and what customers need in terms of the storage solution portfolio that we're driving.

So overall, we're focused on what we do, and we'll leave our competitors to focus on what they're trying to get done.

Tyler Johnson

I would add, Tom, there's always the aggressive deal out there. But we've made no structural change in pricing or our margin structure to compete in the marketplace today.

Tom Sweet

Agreed.

Shannon Cross

Great. Thank you.

And then, I guess one of the questions that we get from a lot of the investors out there is basically sustainability of some of these growth rates, not just for Dell but probably for the industry as well, in terms of client improvement and then also on the server side. I understand some of the pricing is obviously, which is good and probably sustainable, more richer configs, and then you had some pricing up for DRAM and obviously unit growth.

So I guess as you look over your portfolio, it's a good problem to have, but how do you feel about the ability to sustain at least reasonable growth for the next several quarters?

Jeff Clarke

Well, look, Shannon, we're obviously benefiting, as the industry is, around there are some broader favorable macroeconomic themes and trends out there, GDP expansion across the major economies, an inflation environment that is relatively contained and controlled, an interest rate environment that is although slightly rising is still on an historical basis extraordinarily favorable. So we are benefiting from the macro.

I think in terms of broad themes and we talk about it a lot in terms of what's fueling some of the growth rates we're seeing. I'd offer up a couple of data points for you. First, I think that when you think about the client space and we're in the midst of a Win7 to Win10 transition. There are still several quarters of opportunity there, at least as we see it, as we move forward. And so we're optimistic about that, although we'll have to keep our eye on it clearly.

From the server perspective, as we've talked about, workloads and customers are migrating towards many kinds of solutions and capabilities that are compute centric. We're the revenue leader and unit leader in x86 mainstream. And so that plays to our strength. Jeff mentioned the new 14G capabilities that are rolling and some of the feature sets that we're driving.

So, again, how we manage the business, let me be clear about this, right, so we manage for a growth premium to market. So wherever market moves to we're trying to grow at a premium to the market. So I'm not smart enough to predict where the market is going to be six quarters from now. All I will tell you is that our philosophy about managing the business won't change.

We want to grow at a premium in the market. We want to continue to take share. And whatever that market is is where we'll our growth expectations appropriately. And then we'll modify and adjust the business model as we need to do, in reaction to some of those market trends that we'll see. So I do think that absent some macro political shock or something of that effect, we're optimistic about the year, but there's work to do. So I don't want to get ahead of ourselves and we talked about the storage business.

We had a good quarter. But it's one data point and we need to put a number of points on the board and we'll see if we can build a trend. But that's clearly what we're focused on and we'll continue to execute in the commercial client and in the server space.

So we're going to stay focused on what we do and try and drive the business appropriately and balance growth and margin dollar generation.

Operator Our final question will come from the line of Brian Turner with JP Morgan. Please go ahead.

Tom Egan Thanks. It's Tom Egan. I just wanted to follow up on Jeff's question and Shannon's question on servers and networking. I hear all of the stuff that you guys said about AI big compute mix, focus on the customer differentiation. But the numbers this quarter were exceptionally good, and I want to make sure that there wasn't anything that was exceptional about the quarter that may have been in the form of sales incentives or seasonal buying pattern changes or any big sales.

Tom Sweet No, there was nothing out of the ordinary.

Tom Egan So then as a follow-up to Shannon's question, to what you just answered, Tom, I just wondered if we've sort of reached a new level and I know you guys don't give guidance, but if we've reached a new level, there's nothing exceptional going on and you keep doing what you did this quarter next quarter and the quarter after that if we don't sort of see sustainability in the revenues that you guys produced this quarter.

Tom Sweet Look, again, I don't give guidance and I'm not in the business of predicting revenue sustainability. I would just tell you that we are focused on executing and putting solutions in the market that our customers want to buy. So, again, I think we're benefitting from a broader positive macro in some of the compute trends and technology trends, but I'm hesitant to say that we've reached a new level, or a new norm. I don't know enough yet to call that. We're just going to continue to execute, Tom.

So, Jeff, I don't know if there's anything from your perspective.

Jeff Clarke I would add, too, and I know it's a point of discontinuity, but we've become the unquestioned server leader for the first time in 22-1/2 years. We plan on continuing to perform at a premium to the marketplace and to continue to grow our share position in the server business and doing it in a reasonable and responsible way. I mentioned synergies, the number of doors that have been opened in our revenue synergies as part of the acquisition we're going to continue to win business there. We are the technology leader in this category. We're going to be the technology leader in x86 servers.

And things are going the x86 server way. Tom talked about it probably three or four times the software defined as the new type of technology modernization of infrastructure. So between hyper-converged, where

we're the market leader, x86 where we're the market leader, the leader in business defined, I think it bodes pretty well for the types of trends that we'll see out of our x86 server business and then the additional workloads that are coming to the x86 server, plus IoT and the number -- the amount of data that's coming and the compute that has to be done on that data, particularly around machine learning and artificial intelligence, I think the server business is a good business. It's been very, very good to us. We're absolutely committed to it.

Tom Egan                   It certainly was good this quarter, great. Thanks.

Tom Sweet                 Thanks, Tom.

Thanks, everyone. We're going to be down in New Orleans for the Morgan Stanley Leveraged Finance Conference today and tomorrow. Have a great week. We'll talk to you soon.

Operator                 This concludes today's conference call. We appreciate your participation. You may disconnect at this time.

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