DELL TECHNOLOGIES INC.

Moderator: Karen Litzler-Hollier
February 28, 2019
5:00 p.m. Central

Karen Litzler-Hollier: Thanks, Erica, and thanks, everyone, for joining us. With me today are our CFO, Tom Sweet, our vice-chairman, Products and Operations, Jeff Clarke, and our Treasurer, Tyler Johnson.

We've posted our press release and web deck on our website. I encourage you to review these documents for additional perspective. Our fiscal 2019 10-K will be filed on Friday, March the 29th.

Before I turn it over to Tom, I would 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, adjusted EBITDA and free cash flow metrics. A reconciliation of these measures to their most directly comparable GAAP measures can be found in our web deck and press release.

Our fiscal year '19 and Q4 non-GAAP results exclude the impact of certain adjustments such as purchase accounting, amortization of intangibles, transaction related expenses, as well as fair value equity adjustments and discrete tax items. The majority of these adjustments are non-cash in nature. Please refer to the supplemental slides beginning on slide 23 for more detail.

Our non-GAAP net income now excludes, among other items, fair value or mark-to-market adjustments on equity investments, as well as discrete tax items. We reevaluated the presentation of non-GAAP net income and made these changes to enhance the comparability of current operating performance to past operating performance. Non-GAAP net income for prior periods has been recast to reflect this change.

Given the Class V transaction, our Q4 and fiscal year '19 non-GAAP EPS numbers are not meaningful. We have included an adjusted non-GAAP EPS which reflects non-GAAP EPS as if the Class V transaction had happened at the beginning of the year. The view is most comparable to equity analyst models for Q4. See slide 37 in the web deck for more detail.

We will provide annual non-GAAP guidance for fiscal year '20 later on this call. A reconciliation of these measures to their most directly comparable GAAP measures can be found on slide 33 in the web deck.

Please also note that all growth percentages refer to year-over-year change, unless otherwise specified.

Finally, 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 the cautionary statement section in our web deck. We assume no obligation to update our forward-looking statements.

Now, I'll turn it over to Tom.

Tom Sweet: Thanks, Karen.

We are in the midst of a technology-led investment cycle driven by digital transformation and vast amounts of data created daily. Our focus is enabling customers to digitally transform and drive their businesses forward.

We have a unique portfolio in terms of breadth and capability, and our customers increasingly see us as a key partner to meet their needs from the edge to the core to the cloud, which is showing up in our results.

An example of this is VxRail, combining Dell EMC compute and storage with VMware software in an industry-leading HCI solution with an approximate $2 billion annual run rate as of Q4.

Recently, we also created a unique endpoint security solution for commercial PCs through a partnership between Dell and SecureWorks. We intend to continue driving broader collaboration across our family of businesses to create new solutions to meet our customers' growing needs.

I am pleased with our strong fiscal 2019 top-line velocity and financial performance.

Our FY19 revenue was $91.3 billion, up $11 billion or 14 percent. We drove strong top-line velocity with all three of our business units delivering double-digit revenue growth for the full-year. Jeff will talk about our fiscal year business unit results in greater detail.

We delivered operating cash flow of $7 billion and adjusted EBITDA of $10.3 billion or 11.3 percent of revenue, while investing back in the business, including sales coverage to support storage and buyer base expansion.

Since the close of the EMC transaction, we have now paid down $14.6 billion of gross debt, which excludes DFS-related and subsidiary debt. While we did add $5 billion in debt to close the Class V transaction, I want to emphasize that we are still focused on de-levering and getting back to investment grade ratings.

Shifting to Q4 results, revenue was $24 billion, up 8 percent, driven primarily by double-digit growth in servers, VMware and strong performance in commercial client.

Our Q4 deferred revenue was up $1.9 billion sequentially to $24 billion, reflecting higher hardware and software maintenance from growth in the business, particularly storage, as we drive our solutions deeper into the data center.

Gross margin was up 13 percent to $8.0 billion, or 33.5 percent of revenue, a 140-basis point increase due to higher gross margins in ISG and CSG, resulting from pricing discipline and lower commodity costs. We also saw higher ISG and VMWare mix contribution.

Operating expenses were up 13 percent to $5.4 billion, or 22.4 percent of revenue. As mentioned on prior calls, we have been investing in sales capacity and in other areas supporting the customer experience to position ourselves for future growth. Additionally, variable compensation expense increased, given the overall performance of the business.

Operating income was up 12 percent to $2.7 billion, or 11.1 percent of revenue.

Shifting to our BU results for the quarter, ISG revenue was $9.9 billion, up 10 percent. Within ISG, servers and networking revenue was $5.3 billion, up 14 percent. Storage revenue was $4.6 billion, up 7 percent.

We are pleased with our server velocity. We continue to see significant increases in average selling prices, driven by our 14th generation mix and higher value workloads, requiring more memory and storage content.

Storage revenue grew for the fourth consecutive quarter. We have more work to do but believe we have taken the right actions to drive meaningful long-term improvements in our storage business.

ISG operating income was $1.3 billion or 12.8 percent of revenue. Operating income was up 110 basis points due to better profitability in storage, servers and networking.

CSG revenue was $10.9 billion, up 4 percent. Within CSG, commercial revenue was $7.8 billion, up 9 percent, driven by double-digit growth in commercial notebooks and workstations. Consumer revenue was $3.1 billion, down 6 percent, as we shifted our focus toward high-end notebooks and gaming, given supply chain dynamics.

CSG Operating Income was $555 million or 5.1 percent of revenue.

We saw better profitability in CSG this quarter due to our mix, pricing and component costs.

Our VMware business unit revenue was $2.6 billion, up 17 percent. Operating income was $872 million, or 33.1 percent of revenue.

Based on VMware's standalone results reported earlier today, VMware saw broad-based strength across a diverse product portfolio in all three geographies. License bookings for the NSX portfolio grew over 50 percent, and license bookings for vSAN, which includes vSAN within VxRail, were up over 60 percent in Q4.

Our "other" business revenue, which includes Pivotal, Secureworks, RSA, Virtustream, and Boomi, was $593 million, up 5 percent.

Now, let me turn it over to Tyler to update you on cash and our capital structure.

Tyler Johnson: Thanks, Tom.

In the fourth quarter, we generated cash flow from operations of $2.4 billion. As a reminder, Q4 is a seasonally high cash flow generation quarter, while Q1 is typically lower due to factors such as revenue seasonality and timing of corporate bonus payouts.

During Q4, inclusive of transaction-related fees, we used approximately $500 million to help fund the Class-V conversion to the new publicly traded Class-C, which impacted both cash performance and ending cash balances.

For the full year, cash flow from operations was $7 billion and we ended the year with a cash and investments balance of approximately $10.7 billion.

Our fiscal year '19 free cash flow, when adjusted for growth in financing receivables, is $3.4 billion, excluding VMware. We expect that to grow over the coming years as we continue to improve our overall results.

As a reminder, we initially fund DFS financing receivables with cash on hand, so the growth in DFS impacts our cash flow from operations. This impact is offset in cash flow from financing when we subsequently fund DFS receivables through a third party. This metric is an indicator of our cash flow performance and, along with balance sheet cash, our ability to service debt. Please see slide 30 in our web deck for the detailed calculation.

Although fiscal year '19 cash flow performance was good, it was lower compared to the prior year, largely due to changes in working capital, as well as the transaction fees previously mentioned. As discussed on our Q3 earnings call, supply chain dynamics led to a temporary increase in our inventory. Over FY20, we expect to see inventory and the associated working capital impact normalize.

Dell Financial Services continued to have record breaking growth in fiscal year '19 and has now almost doubled its asset base over the last five years. Fiscal year '19 originations were $7.3 billion, up 17 percent, and we finished the year with managed assets of $9.7 billion, growing 18 percent.

Our core debt balance ended the year at $39.3 billion. Net core debt, which is core debt less cash and investments excluding unrestricted subsidiaries, ended the year at $32.4 billion. Please see slide 21 in our web deck for the detailed capitalization table.

We will continue to run the same financial model built around free cash flow generation, which has enabled significant debt paydown to date. Our capital allocation strategy remains unchanged. We are committed to reducing leverage and achieving investment grade ratings.

For fiscal year '20, we remain on track to repay approximately $4.8 billion of debt using a combination of free cash flow generation, balance sheet cash and temporary revolver draw to bridge timing of cash flows.

In addition, we have already begun the process of reducing our future maturity towers with an initial focus on 2021. We recently launched the refinancing of our existing $4.1 billion Term Loan A-2 into a new 5-year Term Loan A-6. With improved credit market conditions, we intend to smooth out our maturity profile over the coming year, while optimizing our capital structure.

With that, let me turn it over to Jeff to discuss the operational highlights for our business results.

Jeff Clarke: Thanks Tyler, and good evening everyone.

As I reflect on FY19, we have made great progress in a number of areas. We delivered profitable share gains across the entire portfolio. We have stabilized ISG and have strengthened the collaboration amongst our family of businesses, including VMware, Pivotal, Boomi and SecureWorks. We have expanded our Enterprise and Commercial buyer base, by more than 100,000, with the investments we have made in our go-to-market engine.

As a result, we saw strong FY19 growth across all three business units with ISG, CSG and VMware growing 19 percent, 10 percent and 14 percent respectively.

Starting with ISG, we are pleased with our performance which included double-digit revenue growth in all four quarters. Storage P&L revenue was up 9 percent for the fiscal year. We grew our storage business all four quarters. Server and networking P&L revenue was up 28 percent for the fiscal year and we have delivered nine consecutive quarters of revenue growth.

ISG operating income grew 35 percent to $4.2 billion or 11.2 percent of revenue, primarily due to operating leverage and profitability improvements in both storage, as well as server and networking.

We have had strong ISG share performance throughout the year. In storage, we have now gained share for three straight quarters and over 300 basis points, more than anyone else in the marketplace, through the first three quarters of 2018, according to IDC.

During Q1 to Q3 timeframe, industry revenue grew $2.5 billion and we have captured $1.3 billion of that growth. We expect to grow share again in calendar Q4 and for the full year when IDC releases storage share results in March.

We continue to see strong demand for our industry-leading hyper-converged solutions and other software-defined offers. Our VxRail offering grew triple-digits again this quarter, and we have increased our industry leading HCI share 320 basis points year-to-date through calendar Q3 of 2018.

We've increased our mainstream server revenue share by 140 basis points in 2018 through Q3 and extended our share leadership over our nearest competitor by over 4 points, according to IDC. We expect to gain share again in Q4 when IDC releases their results in March.

We remain encouraged by the market opportunity as we think about the evolving impact of multi-cloud on IT spending.

We expect the public cloud to continue growing, and our momentum is a clear indicator that a healthy combination of on-prem and off-prem investment is critical in our customers' IT strategy.

Organizations are adopting a multi-cloud approach. According to IDC, 93 percent of organizations today use multi-clouds, with an average of five or more different cloud architectures.

Customers increasingly need consistency in physical and virtual infrastructure and in their cloud operations. By running workloads in the cloud, in the core and now at the edge, there is significant complexity with disparate tools, data management and SLAs. This provides a big opportunity for us across VMware, Pivotal, Boomi and Dell EMC to deliver solutions for our customers' multi-cloud needs.

Shifting to CSG, revenue grew 10 percent. We had a strong year with double-digit revenue growth in our commercial notebooks and workstations, our high-end consumer notebooks and displays, as we continue to innovate with differentiated products and solutions such as the XPS 13, the all new Latitude 7400 two-in-one and our Alienware portfolio.

At CES last month, we won 144 awards, our most ever, and more than any other competitor, indicative of our leadership in PC design and innovation.

Operating income for CSG was 4.5 percent for the year as we managed through external headwinds, including foreign exchange fluctuations and supply chain challenges. We were pleased to see CSG operating margin improve back towards our long-term target in Q4.

From an industry perspective, PC units declined .4 percent for the year according to IDC. Dell significantly outperformed the industry, growing 5.6 percent. We delivered above-industry growth in the desktop, notebook, and workstation form factors and above-industry growth in both commercial and consumer segments.

We have now increased our PC share for 24 consecutive quarters and have gained 1 point of unit share worldwide for the year, the best performance of the top six competitors, as the industry continues to consolidate.

We remain the worldwide leader in workstations and displays. According to IDC, Dell outgrew the industry in workstation units with 12 percent in 2018.

Dell grew flat panel monitors 11.9 percent and increased share by 190 basis points in 2018, according to IDC. We reached 20 percent share for the first time and have been the industry leader in flat panel monitors now for 23 consecutive quarters.

I will now shift gears and talk about the increasing collaboration and innovation within our family of businesses as our integration matures.

We continue to increase integration and cross-sell between sales teams, most notably between Dell EMC and VMware. You have heard Pat Gelsinger talk about the revenue synergies they are realizing as part of Dell Technologies, or part of the Dell Technologies family, and there is a lot more to come.

We collaborate with VMware on customer solutions and have aligned our development teams around six key areas of innovation to bring higher-value software to customers, around compute, software-defined storage, software-defined networking, hyper-converged, the cloud and Workspace ONE.

Together with VMware, we will talk about our broad collaboration and our cloud platform in greater detail at Dell Technologies World in late April.

While we have more work to do, we are very well-positioned as we head into FY20. We will continue to focus on storage and data protection growth, server margins via our business transformation initiatives, improving operating leverage from our investments in sales coverage and increasing sales and solutions development and collaboration across the Dell Technologies family.

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

Tom Sweet Thanks Jeff.

We are confident in our business as customer receptivity to the Dell Technologies' set of solutions remains strong.

We believe the global macroeconomic environment heading into fiscal year '20 remains positive, though we will need to navigate potential headwinds such as tariffs, IT spending in China and other macro dynamics. We are expecting commodity costs to continue to be deflationary in aggregate through the first half of fiscal year '20.

IDC expects IT spending to grow more than twice GDP over the next few years and our market opportunity is promising. We will continue executing on our strategic focus areas which include: growing above the market and driving share gains, generating strong cash flow and de-levering the balance sheet, executing in ISG and driving profitability by balancing growth and margins, and being a trusted partner for our customers by listening and addressing their needs with our full range of capabilities.

Moving to FY'20, we expect non-GAAP revenue between $93 and $96 billion. As a reminder, our guidance factors in an estimated $1 billion reduction due to the new leasing accounting standard.

We expect non-GAAP operating income between $9.0 and $9.6 billion, factoring in an estimated $250 million reduction due to the new leasing standard and continuing investments in sales and R&D.

We expect our non-GAAP tax rate to be 18.5 percent, plus or minus 100 basis points.

We expect diluted non-GAAP EPS attributable to Dell Technologies common stock to be between $6.05 and $6.70. This range factors in the following: the adjustment to net income from minority ownership interest in VMware, Pivotal and SecureWorks; lower interest income and increased interest expense associated with the Class V transaction; and diluted share count between 750 and 755 million shares.

We have provided more detail on our guidance, including the non-controlling interest adjustment, on slide 17 of the web deck.

I'm optimistic as we head into fiscal year '20. There is more work to do but we have many things going right from an execution perspective: client and server velocity, VMware performance and revenue synergies. We have made progress in storage this year and deepened the solution development and cross-sell collaboration across our family of businesses.

We are well-positioned with one of the strongest portfolios in the industry and we believe there is no better partner than Dell Technologies to help our customers realize their digital future. We continue to run our business in a disciplined way, focused on long-term relative growth, share gain and cash flow.

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

Karen Litzler-Hollier: Thanks, Tom.

Let's get to Q&A.

We ask that each participant ask one question so we can get to as many of you as possible. Erica, can you please introduce the first participant?

Operator: We'll take our first question from Katy Huberty with Morgan Stanley.

Katy Huberty: Thank you. Good afternoon.

How much of the growth in operating margin expansion in the fourth quarter ties to lower memory cost versus mix and other factors in the business?

Tom Sweet: Hey, Katy, it's Tom. Let me start and then, Jeff, you can jump in.

Look, I think if you sort of look at our businesses, we were generally pleased with the progress we made in CSG in terms of operating profit expansion. And that was a combination of mix, if you think about the commercial versus -- or consumer versus commercial mix, I should say. Also, you should think about the fact that commodity costs did go in our favor this quarter and so that was clearly helpful.

And then within the ISG business clearly Q4 is a strong storage quarter in general for us and traditionally has been and it was again this quarter. Obviously, we saw server growth continue to be, I think, in an appropriate range for us.

So, look, if you step back and think about the components of the P&L, I think we're generally pleased with the expansion in margin Q-on-Q at an aggregate level from 30 points from 30.9 percent in Q3 to 33.5 percent in Q4. And it's a combination of all of those factors that I just mentioned, plus I think the pricing environment was relatively benign.

Jeff, I don't know if you had anything on the component cost framework itself or any other?

Jeff Clarke: No, I think you hit it, Tom.

Katy, we're in a deflationary environment. You know our model of low inventory gives exposure to the lower cost components at a reasonably quick rate. That certainly has been a factor for us. Pricing is relatively benign, as Tom mentioned.

And I'd just also focus on Q4 storage growing 7 percent and our ISG operating income up on a year-over-year basis in Q4 by a little over 20 percent. That's where the leverage of the P&L came from. It's why it's key for us to continue to grow our storage business.

Katy Huberty: That's great color. Thank you.

Tom Sweet: You're welcome.

Karen Litzler-Hollier: Thanks, Katy.

Operator: Our next question is from Toni Sacconaghi with Bernstein.

Toni Sacconaghi: Yes, thank you.

I'm wondering if you can comment at all about how we should think about Q1. I know you're only providing guidance for the full year, but this is really your first go forward quarter as a public company. I think historically you're probably down about 6 to 7 percent sequentially on the top line and I'm wondering if that's sort of the right normalized base and whether you can talk about puts and takes on a sequential basis, particularly things like currency, whether you see any change in the demand environment particularly China, and whether you see any potential change in competition and pricing over the next 90 days?

Thank you.

Tom Sweet: Well, hey, Toni, it's Tom. Let me try and sort of frame how we're thinking about it as we step through it. And clearly all of you I think are familiar with our seasonal pattern. In Q1 it's traditionally our, if you will, our softest quarter of the year if you look at sequentials, Q4 to Q1. The historical pattern at an aggregate level is roughly a minus 8 percent revenue in Opinc, and that's sort minus 35 to minus 40 percent sort of range.

But I think you need to deconstruct that and think about the fact that from a storage perspective, storage is traditionally -- Q1 is traditionally the weakest storage quarter where sequentially I think revenue is down something like 20 percent and operating income on the storage side of the business, and think about the legacy EMC business as a good example, a good guide on that as being down roughly 50.

So, look, I mean sequentially Q1 is our softest quarter and I expect it to be again this year as we think about the dynamics of the various parts of the P&L. VMware traditionally is roughly down historically like 12 percent on revenue sequentially and roughly 25 percent from an Opinc perspective.

I think the other dynamic I want you guys to think about, and look we're not going to give specific guidance, but I do think it's important for you to think about it is, we've talked a lot about the investments that were related into the P&L to improve some long-term positioning in particular around sales capacity, sales coverage models and ensuring that we get to the right North Star ratio and we've talked on past calls about the fact that we've got continual investments coming in roughly through the first half of the coming year.

So I do want you to think about Opex frameworks as you go from Q4 to Q1. If you looked a year ago, what you would have seen is Opex roughly increasing roughly 3 percent sequentially. While I don't expect that to happen, I do expect Opex to be slightly down from the Q4 level. So I think you've got to factor that in. And then as we go through the year what you should see is productivity improvement as we step through the year as the sales investments begin to turn. So that's how I think about just a rough framework.

From an FX perspective, Toni, I think in Q4 we roughly had about a 200-basis-point headwind. I would expect something similar in Q1 and then I think it moderates after that. You guys know that we traditionally think about FX dynamics on a quarter on quarter basis because of the pricing dynamics that you have to work your way through. And on a quarter-on-quarter basis, it's been relatively stable. So I think the pricing environment around FX should be relatively stable.

And then, look, I think as we position for the coming year, we feel good about the annual framework guidance that we provided you to give you something to think about. And you are right, we want to make sure you think your way through the year given that we're relatively -- this is the first time that you guys are thinking about the quarterly breaks in a more detailed level. So we've tried to give you some things to think about.

Toni Sacconaghi: Thank you. That's helpful.

Operator: Our next question is from Jeff Harlib with Barclays.

Jeff Harlib: Hi. Good afternoon. In ISG can you just talk about how you see the revenue outlook into this coming year? Obviously, servers was a huge performer on the revenue side this past year and storage was solid. Do you see a convergence there? And what are some of the factors as you look at the demand environment and your position in both sub-segments?

Tom Sweet: Well, maybe I'll start and Jeff should jump in as the owner of the ISG P&L. And, Jeff, it's Tom, obviously.

So, look, I think as we think about mix here, I think let me ground you on what IDC is calling in terms of a market framework, which is mainstream servers, which is the segment of the server market that we're most focused on given that's where the profitability is, is roughly, IDC right now is forecasting on a calendar basis, roughly about 3.4 percent server revenue growth for the year. And they have essentially storage minus 1, call it flat, down from a stronger calendar '18 from a market perspective.

Having said that, I think if you look at the macro dynamics that we see across the globe, I'm not expecting Fiscal '20 to be as strong as Fiscal '19 from a revenue growth nor have we guided you that way. But I do think it's positive. GDP is still growing, IT spending according to IDC is still roughly two times GDP.

And if you think about some of our major markets around the globe with the U.S. at roughly 2-1/2 percent GDP call for the coming year. China, which is down from 6.6 to 6.2. I think the macro environment is still healthy for us right now. We're going to have to go execute and navigate probably through some choppy waters at times but that's the job we have to do.

So I think we feel good overall.

And then, Jeff, maybe you could chat about just the overall specifics of the investments we've made with storage and servers and how we're thinking about some of that.

Jeff Clarke: Sure, I'm happy to. I mean clearly you talked about the market indices and the forecast in absolute terms mainstream storage marketplace had $2 billion of incremental revenue. We have taken share. We're going to continue to consolidate share. We think when you look at this big $85ish billion opportunity, two-thirds of it being in mainstream servers, our share position a little less than 30, there's a fair amount of room for us to consolidate, particularly when you look at high value workloads or blade or modular where we have generally a much lower market share in those ASP-rich areas.

So we think there's room to grow there. I think that has continued to be, at least in my mind, continued to be bolstered by the fact that we still see on-prem private cloud early build out. We talked I think on the previous call, or throughout our series of road shows, repatriation of workloads coming back to on-prem. We continue to see that.

There has been some recent research by IDC that suggests there will be $120 billion spent on hardware for on-prem private clouds over the next four years and another $100 million for software and services on top of that. We think that bodes well for the environment on a go-forward basis, as it's clear we're in a multi hybrid cloud world.

On the storage side, first I'm really pleased that we have four quarters of growth in a row of share gain, 300 basis points year-to-date. As I mentioned in the prepared comments, I expect the fourth quarter in a row and, again, I've talked about a turnaround. We have plenty of work to do, but clearly, we've stabilized the business.

The investments that we've made in sales capacity and coverage are yielding net new buyers, which is good to see. We continue to tune the sales compensation focus on storage, which is very important to us. The portfolio as we enter FY '20 is in much better shape than it was a year ago. It's highly competitive, where we literally have a leadership position in the high end.

And while you've heard me talk about the need to simplify and consolidate the midrange, the products we have in the midrange today are more competitive than they were a year ago. And clearly unstructured space is a high growth area. And we continue to see good performance out of our unstructured storage area.

We expect and have built a plan to take share in both the mainstream server and the storage marketplaces that we serve today. Does that help?

Jeff Harlib: Perfect, thanks very much.

Jeff Clarke: You're welcome.

Operator: Our next question is from Rod Hall with Goldman Sachs.

Rod Hall: Yeah, hi. Thanks for taking my question. I guess I wanted to start off and ask Tyler on the interest rate environment. I know you had commented prior, and thanks for that, on your plans to push debt maturities out. I just wonder how you're feeling about that environment. As you look at it right now do you feel like there's an opportunity to reduce debt interest costs as you refinance.

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And then the second thing I wanted to do is just clarify the storage share commentary. I know that in storage you're partly benefitting from people replacing footprint as your product portfolio has gotten a little bit better. And that mathematically causes share to look better and then, of course

I'm sure you're taking some share from your competitors, as well. But, I wonder if you could give us some kind of an idea whether you know how much of your share gains are due to just accelerated replacement activity at your existing accounts and how many are due to share that you're taking from competitors. Thanks.

Tyler Johnson: So, I'll go first. This is Tyler. Look, I think the good news is that interest rates are somewhat stable, right. I mean we've seen the 10-year come down. I think it had traded as high as like 3.2 or so. And it's down back below three. So look, I think in the end it obviously depends on what the maturity profile that we pick. But I think we'll be in good shape to push some of these maturities out and probably without having a material impact on our interest expense or the weighted average interest rate.

Karen Litzler-Hollier: And, hey, Rod, we're just taking one question at this time, but we can follow up with you as an IR team.

Rod Hall: Sure, thanks.

Operator: Our next question is from Wamsi Mohan with Bank of America Merrill Lynch.

Wamsi Mohan: Yes, thank you. Tom, I saw your guidance overall for Fiscal '20, I was wondering if you're seeing any sense of caution from any of your customers across the geos at all. And some of your competitors have noted a stronger second half in infrastructure spending. I'm wondering if you think that there is a case to be made about seasonal second half versus first half, or just your view on second half versus first half for Dell. Thank you.

Tom Sweet: Hey, let me start with the guidance and then a couple of just broad comments. And I'll flip it to Jeff, maybe, to talk a little bit about infrastructure as we think about the year.

Look, I think from our perspective, in terms of any caution or slowdown from the customer set, I would tell you to date we really haven't seen anything in terms of customers beginning to delay significant activity, or to push out investments that they were planning on making.

I think what we're -- which I think is in part because of the -- if you think about the IT spend and the IT capability being so essential to a business model these days, that many customers are viewing it as essential.

I also think that -- so that's one thing. So the answer is, no. Also, remember our direct model, right, in that typically when we see cycles turn, particularly on a downturn, you see it first in the medium and small business. And with our direct model and our interactions with those small businesses and the medium businesses we haven't really seen that.

So to date there's really no evidence of customer behavior changing at this point in time. And so, look, we're optimistic about Fiscal Year '20. I think we're realistic that we'll have to navigate and run the business and execute well. But, I think the environment is generally still positive for us.

Jeff, I don't know if you'd say anything about the infrastructure side as you think about the back end.

Jeff Clarke: I think you hit all the high points, Tom. What I would add to it is the discussions we're having with customers about digital transformation continue. Digital transformation is real. It's on the agenda of most of companies from large to medium and down even to small business. And that digital transformation is driving a need to modernize and to drive towards this multi-cloud, hybrid world that I mentioned earlier.

So, the environment continues to be somewhat optimistic there as the digital transformation continues to be in front of us and we're in the early innings of it.

Karen Litzler-Hollier: Thanks, Wamsi.

Wamsi Mohan: I'm sorry, second half versus the first half.

Tom Sweet: Look, we're not going to parse the year. I would just point out one thing to you, which is as you think about the investment cycle we've been on, in terms of sales capacity, I think as we get to the back half of the year we do expect to see some, the beginning of the realization of the benefit of some of that capacity add.

So, as I've talked to before about the productivity ramp and curves that they're on, but I think overall we're all optimistic about the year.

Karen Litzler-Hollier: Okay. Thanks, Wamsi.

Operator: Our next question is from David Eller with Wells Fargo.

David Eller: Hey, good evening. Thanks for taking my questions. You've got your guidance it looks like it's calling for a little bit of margin expansion throughout the year. And so I wondered if you could walk us through some of the puts and takes on where you expect to see that maybe on a gross margin and operating expense line.

And then as we look at the quarterly progression of the year I know Toni kind of asked this a little bit earlier, but if you could just -- as Q1 would you view that as probably your toughest compare of the year, or would you view it in a different way?

Tom Sweet: Yeah, look, let me give you a couple of thoughts. One is I don't parse margin and Opex in terms of the guidance we gave you. I do think that we expect operating profit to expand in FY '20, which is consistent with how we want to run the business.

And if you think about the themes that we're driving around continued storage growth and server profitability expansion, then think that should help you in the context of thinking about how we think about profitability expansion over time, as well as the contribution of VMware.

Then as it relates to --

David Eller: Just any quarters you'd call our as your tough compares?

Tom Sweet: I'm sorry. I would call -- I think Q1 is probably the toughest compare as we think about the year-over-years, because that's where we saw the acceleration last year, in particular in some of the storage business.

So, I think that's the one that has been probably the toughest one as we've sort of stared at the year, coupled with the Opex investments that we've made, which we think begin to scale in the back half of the year better than in the first half of the year. And that's how I kind of think about it.

David Eller: Great, thank you for taking the questions.

Tom Sweet: Thank you.

Operator: Our next question is from Steve Milunovich with Wolfe Research.

Steve Milunovich: 'Sup.

Operator: Okay, sorry. Our next question is from Jim Suva with Citi Investment Research.

Jim Suva: Thanks very much. Looking at the slide number 12, the Client Solutions Group segment, Tom, it's quite admirable that your year-over-year revenues grew 4 percent. But the question is on operating income down 1 percent. I see the little note there on the side as you talk about costs by investment in sales coverage.

Can you help us understand are the offsets in sales coverage something that you're going to have ramping up even more as the year progresses? Are we at a run rate now that you're happy? And what do you mean by sales coverage, because my understanding is Dell does a lot of direct, but you've also been using the channel a little bit more in your Client Solutions Group. Thank you.

Jeff Clarke: Jim, I'll start this. It's Jeff. I'm sure Tom will add in, as well. But, if you think about our previous references to broad sales capacity and coverage, we've talked about it in the broad sense across the entire business, focus a lot specifically on the storage side, but also just general sales to reach customers direct and to expand our channel reach, as well.'

So the reference is really around we've invested on a year-over-year basis. And as Tom said in the second half of the year we expect that sales productivity to begin to drive incremental revenue and operating margin.

Tom Sweet: I think the other thing, Jeff and Jim, you should think about, I think in my prepared remarks I commented on that in Q4 we saw some incremental costs associated with incentive compensation payouts and frameworks, because of the strong performance of the business. So, some of that is flowing through these business unit P&Ls, as well. So that's the other thing to think about.

But, I think as Jeff hit as well, which is the context of grow capacity, we go both direct and through the channel. Roughly 50 percent of our business is direct and making sure that we have the right coverage model to expand customer, the net new customers, as well as cross-sell into other existing ones is key to our long-term success and long-term framework. So that's how we think about the coverage models.

Jim Suva: Thanks so much for the detail. That's quite useful. Thank you.

Operator: Our next question is from Paul Coster with JP Morgan.

Paul Coster: Yes, thanks for taking my question.

The guidance is quite encouraging and it's easy to align our model with it until we get to the EPS line. And I'm just wondering, is there something in Other Income or can you give us a little bit more specificity around Net Interest Expense for the year so that I can figure out what the delta is here?

Tom Sweet: Yeah, hey, look, it's Tom.

Paul, I would think about it like this, which is, look I mean, obviously we, as you said, as you work your way through the P&L and get below operating income there are a number of variables that are hitting.

And you start with the fact that, remember that we did the Class-V transaction in Q4 which two elements of that were obviously right. There was an $11 billion cash given out from VMware that came. So interest income is going to be lower for the year next year. And we, as you know, as part of the Class-V transaction we put $5 billion of debt on the balance sheet. And so there's an interest to carry on that.

Then you get into the tax rate, which I've tried to give you some frameworks to think about. I'm not sure what you're using in your model for tax rate. And then the non-controlling interest, which can be a bit of a complicated calculation.

So we've tried to lay that out for everybody in terms of a baseline set of assumptions on Slide 17 in the webdeck. And so I would ask you to take a look at that and see how that aligns to how you were thinking, and if you -- and we're happy to talk, and so give the IR team a call if you'd like to have a more detailed conversation on that. But that's essentially the walk as we think about it.

Paul Coster: All right. Got it. Thank you.

Operator: Our next question is from Shannon Cross with Cross Research.

Shannon Cross: Thank you very much.

Just wanted to check, I know in February you typically make changes to your sales comp plan. I think this year you were focusing on margin and VMware, but if you can talk a bit about what you're sort of pushing with your sales people in terms of comp for 2020 and then also just in terms of cross-sale opportunities with VMware that would be helpful? Thank you.

Jeff Clarke: Sure, Shannon. This is Jeff, and I'll take a stab, and then Tom I'm certain will pile on as well.

As I think I mentioned a little bit earlier, we're taking another tweak, if you will, of the sales compensation plan. I think we've communicated in the past there's basically three buckets, if you will. There's the CSG side and then within the ISG side there is storage and the non-storage components, and obviously there's VMware on the VMware side.

Within my business, we continue to bias the compensation plan on the ISG side towards storage. We continue to make tweaks towards that. We're very pleased with the progress we've made this past year and we'll continue to try to optimize that.

So it's the continuation of what we've been talking about for the better part of the last year-and-a-half. We're pretty excited about what that means on a go-forward basis. And I'm not sure I can add much more to that.

Tom Sweet: Hey, Shannon, it's Tom. Look, the only thing I would add is, look, what we've tried not to do with the sales comp plan this year is make broad changes because all that does is tend to cause the sales organization to spend a fair amount of time trying to figure out the new comp plan.

So what Jeff said I think is a nice sort of elaboration of what we're doing, which is small adjustments to make sure that we get the right focus, the right attention, and we're focused on those valuable solution selling and LOBs that make sense to us and that we want to push.

And you've got to think about that both with our direct flowing organization as well as with our channel. And so we're making refinements to our channel program to incent them to ensure that they're driving the higher value offerings like storage and attaching services where appropriate.

So again, it's a continued refinement, Shannon, as we continue to tune the model. And I think we'll continue to make progress.

Jeff Clarke: Tom, you said solution, and clearly this plan that we built this year drives towards building on the collaboration that we've built with VMware. So if you think about Workspace ONE and Dell, we certainly put incentives in our sales force to work on that solution across the different SABs. If I think about VxRail, vSAN, software-defined data center, VCF, we have clearly put, if you will, some sales compensation incentive behind that.

I mentioned cloud in my comments as well. As we think about cloud, I think I introduced this concept last time around Pivotal, Boomi, VMware and this operational control plane on top of our leading Dell EMC infrastructure products, you can imagine that we package some sales compensation of selling that level of integration across our Dell Technologies' properties as well.

We'll talk more about that at Dell Technologies World and I guess it's about eight, nine weeks away. But Tom prompted that and I wanted to make sure I communicated that solution selling across the SABs and aligning higher levels of integration and collaboration is clearly where we put more focus this year than last year.

Karen Litzler-Hollier: Thanks, Shannon.

Erica, let's take one last question.

Operator: We'll now take our final question from Simon Leopold with Raymond James.

Simon Leopold: Great. I appreciate that.

I wanted to maybe get a little bit of a philosophical perspective of what you see as your options and priorities in terms of generating cash beyond operations? And what I'm really getting at is, I understand you pushed out maturity on the debt, but I want to get a better sense of what's available to you beyond the operating model of whether it's divesting certain assets or things like that. Just help to understand what your options are. Thank you.

Tyler Johnson: Hey, yes, this is Tyler. Look, I'm focused on the business driving profitable growth and growing the top line, which is what's going to throw off the most consistent cash. So nothing really to talk about in terms of something unique like a divestiture or something like that.

The reality is, we ended the year with strong cash balances, very well positioned to pay down the approximate $4.8 billion, which I talked about, and if you flash forward to the end of the year what you're going to see is that we'll have lower debt balances and our maturity profile is going to look smoother.

So a little bit of work to do, but I feel really good where we are.

Simon Leopold: Thank you very much.

Karen Litzler-Hollier: Thanks, Simon.

That wraps up our call for today. A replay of this webcast will be available on investors.delltechnologies.com.

As a reminder, we will be hosting our annual Dell Technologies World event April 29th through May 2nd in Las Vegas. And we are planning to hold an IR track with this event this year. We'll be providing more detailed information about this event next week.

Thanks everybody for joining us today.

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