

Dell Technologies Inc.

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Paul Coster: Good afternoon, everyone. My name is Paul Coster. I cover applied and emerging technology and IT hardware at JPMorgan. I'm joined here today by Sam Burd, who is the President of the Client Solutions Group at Dell Technologies. Sam, good afternoon and thank you so much for joining us.

Sam Burd: Hey, thank you for having me, Paul. Great to be able to join you today.

Paul Coster: Thanks, and we love the view out your window, which I understand is near Austin. So I'm just going to start with the safe harbor sentiment--statement--and all that Hall promises me I'll get paid for this. Dell Technologies' statements that relate to future results and events are forward-looking statements and are based on Dell Technologies' current expectations. Actual results and events in future periods may differ materially from those expressed or implied by these forward-looking statements because of a number of risks, uncertainties, and other factors, including those discussed in Dell Technologies' periodic reports filed with the SEC. Dell Technologies assumes no obligation to update its forward-looking statements. And that's the end of my career in IR.

All right, Sam, thanks very much for joining us. This is the JPMorgan CES Technology Forum. I don't know how many years we've been doing it, but I think it's the first one we've done virtually. And the CSG Group at Dell is coming off--well, three-quarters of the way, at least--through a fabulous year. I just saw that everyone's seen this set here. In the most recent print, you put up \$12.3 billion of revenue and \$1 billion of operating income, and that was 8% year-on-year growth, 10% sequential revenue growth, and nearly 40% year-on-year and 40% sequential improvement in operating income. That's a pretty good build, Sam.

So let's start with 2020. Through the dreadful year, and yet is Dell powering through. So what is it that happened here? Why are you doing so well?

Sam Burd: Well, like you said, it's been a year of many different challenges. But if we think back, Paul, we had, as you hit on, we had a really good quarter. We had our best quarter in our history, if you look at revenue, units shipped, and profitability. And it's been an interesting path to get here.

If you think about a decade ago, people were out talking about the death of the PC and seeing the PC might be replaced by phones and tablets. Paradoxically, they were writing all that on PCs, so you spin things forward a decade later, and what we saw with COVID and the pandemic really underscored a big opportunity out there in technology. It just showed that the PC's an old friend; it's a great productivity tool for work, school, home, for things that you want to get done. And I look at the past year and I'd say technology's never been more important.

If you think about home, we used to go places to do things. We now have, in the past year, it's like the PC was bringing the world to our home, whether it's work we were doing, kids going to school, a doctor visit that would happen through a PC, playing games as an escape valve for everything that was going on.

We don't think that changes post-COVID, either. We see people operating in a world that probably accelerated how we're going to go do things and being able to both be in different physical places, but do a lot more from your home or wherever you want to go be.

So all those trends came together in the past year to be a good year for technology, a good year for PCs. Paul, IDC reported yesterday 303 million units shipped in the PC industry in 2020. It's the highest size of the industry that we've had in the past 6 years. It was 13% growth. Think about the business and the industry really stabilized in 2016, and we've seen growth since then.

And even with all that growth, as we look to the future and see opportunities out there, there are lots of people without technology who could use and benefit from technology. In the US alone, there's 10 million students without PCs; 10 million students in Japan; 40 million students in western Europe. We're seeing a home environment. If people's home environments are like mine or many people I talk to, it's like one PC in a household is just not enough. It's like we're moving to a one-to-one PC-to-person to be connected to the world environment. And I look at all the PCs out there--1.7 billion PCs in the installed base, 700 million of them more than 4 years old. So they're not the kind of PC that delivers the experience people want if they're doing Zoom calls or playing games.

And then with all that going on, we've seen a shift to notebooks in our business and in the industry in general which, if you think about what that means for growth and just opportunities in the PC space, notebooks have a quicker replacement cycle than desktops, probably--our research suggests in the order of a year and a half quicker replacement cycle. They tend to be a higher ASP. They tend to pull more things with them. If I look at what I'm doing here with accessories, whether it's keyboards, big displays to go in and visualize the data that you have docks to go connect, so there's a bigger bucket of goods and opportunity that you have in selling to customers.

And we've generally seen, with the whole COVID pandemic, that enterprises and people have figured out technology really matters to keeping people happy, keeping employees satisfied. Like they care about the job they're taking; they want great technologies so they can get things done. So if you look at 2020, it's been a crazy year in many regards, but it's been a good year for technology, and really, technology helping people stay connected,

technology being important to how we kept the world operating. The PCs played a big role in that, and we think that continues going forward.

Paul Coster: I just want to explore this a little bit more. So the PC seems to be reinvigorated. So, too, coincidentally, there's a little company up in Washington state called Microsoft, which went from--it felt like a laggard a few years ago. It doesn't feel like that anymore. And the ecosystem that they bring with them to the PC seems to have strengthened a bit and feels a bit more useful and more suited to creativity and teamwork and so on. Can you just talk about that? It's that also sort of helping out here.

Sam Burd: I think we've figured out how to use technology and the PC to, like you said, innovate and collaborate. And I think there's more to come, because if you think about we're 9 months into a pandemic that has pushed new ways of figuring out how to go and get things done. Some worked really well. There are opportunities in things we're working on, other people in the industry are working on, to solve how can we collaborate and innovate even better? And there are things today that you have to have touch to go get done in the best way. There are things that tomorrow, I think, we'll figure out how to have a real breakthrough there.

But Windows is a really powerful operating system if you look at what we've been able to do with Windows 10. It's encouraged for a long time an open approach in the industry where people can innovate, put apps together. And if you look at powerful technology and an open ecosystem, there's a lot of innovation that happens and enables people who are creating and reinventing different industries. And you can't imagine going to work today or going to school today without a PC.

It's like my home network. There were some connectivity problems in the beginning. My kids are like, "Jeez, I can't do anything in school." And it's like I think back to my school days, I didn't have a PC sitting with me. Today you can't connect, it's like you're not part of the world. So I think we've done some great things on that. I think we see that opportunity continues.

Paul Coster: So your thesis is that the pandemic isn't a one-time pull forward of demand, it's an accelerant of certain trends. And one of the trends which you called out there is the students who do not have PCs at the moment. I think I added it up at about 60 million in total across Japan, Europe, and North America that require PCs. I imagine that they're probably going to gravitate towards the lower end of the PC range and Chromebooks as well. Is that one of the bigger areas of growth at the moment?

Sam Burd: We're certainly seeing a lot of demand in the education space. We see it with consumers. If you think about it, we've seen government as a strong sector. I think we'll see commercial as we go forward as people refresh the PCs that they have in place. So I think there are certainly those accelerants that mean this will continue post the COVID world that we're in. There are vaccines out there.

We also see people are discovering there are new, different ways of working. It's not, hey, COVID goes away, and then suddenly everyone's back commuting to the office in the morning, coming back home at night. And you're going, "No." I've talked to many different companies. I've talked to the people that are on our team at Dell, and people

want to work in a--it's woken them up to there's a new, hybrid world and approach that you can go in doing things that equals there are days when I'm going to want to be in a home office, and it's great to be able to spend time with the family, be very flexible in the environment that you're in. There are other days when it's right to be in the office, maybe reviewing the next product we're doing, meeting in person with the team.

And people want to work that way, so we see the technology in the future is going to support that kind of environment, whether you're in the workspace or you're doing things from home. And people are going to be very fluid between those ways of operating. So we don't see this as a one-time thing; we see this as a new way people are going to operate. It's an unfortunate event that we had, but it opened up the world to probably a space we would have gotten to in some number of years. But maybe what the world is going to look like in 2025 or 2026 has suddenly got pulled into what it looks like today in 2021.

Paul Coster: And if I understood your answers correctly, you don't even really expect a mix shift. It wasn't like there was suddenly this upfront surge of business people working from home, buying high-end laptops and notebooks for remote access. It was across the board. And then moving forward, it's not going to be all Chromebooks suddenly. It's going to be a pretty decent mix of commercial as well as consumer, high-end, low-end, everything across the board.

Sam Burd: Yes, I think it will continue to be all those segments buying. Our business is more tilted towards commercial than consumer. We're about, if you think about pre-COVID times, we're about 70% commercial revenue and 30% consumer revenue. Consumer has clearly grown, but there are commercial buyers out there, education buyers. I think that continues.

I also don't think it's all entry space buying. When we look at it, there are certainly people who come into the market and look for price point, but then we often see, whether it's repeat buyers or people coming into the space today are going, "How do I get done what I need to get done with this tool?" and versus go buy the cheapest PC.

You can look at an analogy, Paul, in the phone space. If you go buy a phone, the phones are not at a low price point. They're pushing \$1,000, some of them more. And people are going, "I use this tool every day and it helps me be successful. I'm willing to invest to get the right tool."

And whether that's a business that can look at it and go, in our work station space, where we're a leader, they're some of the most expensive PCs. And you think, "Well, okay, most expensive PC. Those will be refreshed on a slow basis because the company invested a whole lot of money in it." They actually have a really quick refresh cycle, because people look at it and say, "I'm putting my best designers, engineers, innovators, people like that that are designing the things that matter to my business and are going to make it successful. And hey, if I can add a percent of capability to that, or even a fraction of a percent of capability to them with more performance and better experience, I'm going to get them a great device."

And then when we talk to those end users, they also go, "When I'm looking for a place to work," as a new employee and you're a Gen Z, "I'm not after a company that dusts off something from the closet and, 'Here's the computer that you get. Take it and like it.' I want a great tool so I'm going to be able to be successful, and I want to go to the places that are getting me great tools so that I'm going to be able to make a difference," versus when you think about the salary that you're paying to those employees and the cost of a PC, and it's better technology has a really good return.

And we're seeing at companies, not only IT and CIO caring about this, but partnering with people like HR or line of business leaders and going, "How do I equip my people with the best technology? Because they will be more successful, they're going to want to stay here, they're going to see that we care about them, they can go make a difference. And it pays dividends in other ways."

And you see the same thing in school and home. Now, it's not every single buyer, but it's the same thing of, "Jeez, if I'm going to go play games," I have great stories of friends' kids who are convincing them they need the most powerful Alienware to do their math homework. And they're probably playing games on the side as well. So yes, they're doing that, but if you can deliver something great in that whole experience, there's a reason to buy more than just, "Hey, I want a PC, and I just want the cheapest thing out there."

Paul Coster:

Yes, got it. One thing I'll just say that my observation is that the PC suddenly was thrust into this key role in the context of the pandemic. I don't feel like the PC platform has quite caught up, though, yet with the implication of virtualization. Suddenly millions of us are really deeply immersed in virtual environments and also our own desktop environments. And sometimes the two worlds seem to fit together very poorly. That's a software problem.

There's also a bit of a hardware problem when it comes to the telephonic interface or the video interface. And I sense that you guys have got some work to do to bring our next generation of PCs that fully embrace this new working paradigm. Is that something that we should expect in the year ahead?

Sam Burd:

Yes, we're certainly very aware of how people are operating today. And then there are spaces in technology where, as you said, we will invest and go make that experience better. We as a company, we've been passionate about this space since Michael started the company 36, almost 37 years ago. We saw technology in people's hands as being really powerful. And we've gone from a world where if you think about a year ago, I had people who would put stickers over the camera in a laptop. And you'd walk into meetings and everyone was concerned about that. You look today, and you go, "Jeez, we're all sitting, using cameras, Zoom, or we're like on camera all the time," and all those are ripped off.

If you think about CES, we just announced some commercial systems that have something we call SafeShutter. We did a lot of other great technology announcements, but then it was funny. We got a bunch of press around, "Hey, people love--it's like a colored shutter. It's smart enough. I don't have to do it myself. It's smart enough to know when I'm on camera, it's open. When I'm off camera, it's closed and I can visibly see it's closed. So I have the privacy I want when something else is going on or if I need to

intelligently shut that, and I'm on camera when I need to be." And you look at continuing to build that, and how do we get--we're doing things around artificial intelligence and sound and audio on our systems, Paul, that makes it a better experience. And we started that before the pandemic; we're certainly accelerating that with the environment where interruptions and other things can happen to you as you're on camera.

We're looking at how we build collaboration capabilities. We're creating, and we shared at CES a number of new monitor products that we introduced. So again, like cameras and monitors were very hard to find built in, built-in speakers, curved monitors for a really immersive experience as someone's at their desk. Didn't work so well on TVs, where you want to sit around with a lot of people and watch, and a curved TV is optimized for one person. Much better in a monitor and desk experience, where you're the person who's experiencing the data that you're looking at.

So you're already seeing some of those enhancements, Paul, and then we're going to continue to build that into our products and into our offerings to make them really great for how people want to use them.

Paul Coster: Great. So you have been gaining market share, I think, for pretty much 5 years, nearly, pretty much every quarter. You're number one in the client PC space in terms of revenues, and that probably reflects your sales toward commercial. But you're definitely in the top three in terms of units. Most of the market share has come from the also-rans. But what I really am interested in is how do you feel you are differentiated from the two obvious competitors?

Sam Burd: Yes, as you said, we do operate pretty differently from our competitors. So I think you covered it well, Paul. We're number three in units. We're number one in revenue and profitability when you think about the PC¹ and the ecosystem around that.

We do that by being different in a number of ways. One is you just think about our company and the capabilities we can bring to bear for our customers. We have leadership positions in the PC space at the edge. We have leadership positions in infrastructure--think about storage, server, software. So as companies are just looking to modernize their environment to drive better outcomes and results, they can engage with one company, Dell, who has really great positions across that broad spectrum. So we don't talk about it a lot, but that's a great advantage of, "Hey, I can tap into a company who can really help me figure out things end to end."

If you look at what we do in the PC space--you hit on some of it--we focus on customers who really value technology. So that's commercial customers, and we talked a little bit about the return on investment. It can be a very logical purchase experience to invest in technology there.

Same thing in the consumer space. Where we play in the consumer space tends to be more in the high end, when you think about XPS, think about Alienware and gaming. And that's better revenue, better profitability segments.

¹ Windows-based PC makers

Versus our competitors, we sell direct to our customers, and we have strong partnerships with the channel, but we have a really vibrant direct business. And we do that because when we do that, we're far better at selling the right product to our customers. We understand their needs and we figure out the right solution. We sell the whole ecosystem around the solution. So if you think about a higher ASP sale; a customer that's happier because they get the better end experience; a customer that's more loyal, so it creates a whole virtual cycle in selling direct.

And then I just look at what we're doing in my space and across the board in how we're passionate about the products that we're putting together. And products have to be the lifeblood of any company who is doing a great job, and our XPS products are considered best in the industry for the past 6 years versus anyone out there, any competitors. We drove and really brought to the industry zero-bezel design, so they're just gorgeous displays, gorgeous front-of-screen performance--everything from really mobile systems to work station-class systems. We've got a really strong brand in Alienware and performance products that gamers around the world covet. We've built intelligence and great design into our high-end commercial notebooks. So we're really committed to putting strong products out there.

So if you look at all those things of we're unique, we go to market in a different way, and a real commitment to this space, it shows up in people recognizing that and seeing us as different from our competitors out there.

Paul Coster: Is there any way in which the VMWare relationship contributes to the CSG business in your pitch to corporates?

Sam Burd: Yes, and it's how we think about some of the future opportunities in this space, Paul, and where we see an opportunity to really reinvent the life cycle experience around technologies and do that in an as-a-service way. So if you look at PCs today, a not much talked-about fact, companies spend 3 to 4 times more than the cost of the PCs on the life cycle around the PCs. And in doing that, it's a heavy touch environment. It doesn't deliver a user experience that's good enough.

So we've been looking at the capabilities we have plus VMWare and going, "How do we reinvent what that experience looks like?" And we have done some as-a-service things in the past of putting some of our offerings together. But we're going, to me, the opportunity is to reinvent this with software, with intelligence, AI machine learning, and start to automate some of these things that are really manual today.

So if you think about as simple as going, "Hey, if Sam's getting his next PC, how do I figure out the right PC for him?" versus IT going, "Hey, Sam's in this category, so he gets this PC." How often is he mobile? How does he use that device? How do I get the right, perfect PC for him? How does it show up to his house, delivered from our factory, so that he can turn it on and it works and IT doesn't have to intervene, make sure the right apps are loaded, make sure it works on the network. And when Sam has a problem, how are we being intelligent in that and I don't have to call in to a help desk who maybe has to go to a Level 3 support at Dell and solve the problem? But before Sam even knows he has a problem, we're figuring out what's happening and how we get that fixed for him and resolve that problem. And then how do I migrate data to my next PC?

So all of those things, we're going to software, the capability that we have at VMWare, the ability to work together with them to change that life cycle. We've done some offerings in that space, Paul, but we're looking to the future and going--to me, there's an opportunity to take a PC that's been a hardware experience with stuff bolted on, turn that into an as-a-service experience, power that with software and intelligence that does things that used to be mundane, manual, not well done tasks, and make that a much better experience for people to get technology in their hands, whether at each company, or you're sitting at home and a home user and you don't want to be IT support for the rest of the users in your household.

Paul Coster: I know that you love your IT VAR channel. But what you just described to me suggests you're also really well positioned to start developing closer relationships with your end customers and direct relationships with them, whether it's through AI or just simply the as-a-service contract itself.

Sam Burd: Yes, we talked a little bit, Paul, about direct and us being unique in selling direct while also having channel partnerships, and we can deliver this through the channel; we can deliver this in a great way direct. And I think a real power of engaging with our customers is we understand what challenges they have, and that's where we have our team. Our team's focused on going and doing that. And I have as many, if I look at my organization today, we have as many people working on software as we have working on hardware, which equals that whole experience around the device really matters a lot. And that's what we're trying to deliver to customers versus just a set of hardware things that they have to figure out on their own. That's a really incomplete offering. And that's where what we're doing with VMWare, I think there's opportunity to make this space a lot different in the future and better for our customers.

Paul Coster: As you transition to this as-a-service business model--I don't know if it's transition, but mix it in--what does it do to your revenues and profitability? Does it slow you down in some ways and then you catch up later on after you've analyzed the transition?

Sam Burd: I think we talked about we have something called Project Apex across our company. So we're looking at how we take the offerings across our company and really offer them as a service. That holds true for my space and the PC space. I think it's a journey to go and get there, Paul, so it's not suddenly tomorrow everything's switched. What we have certainly seen is as-a-service done right can be a more profitable experience and offering for our company, and we've seen that in other industries.

And then like you said, the piece we have to navigate, I think there will be a transition where you go, as-a-service is clearly sold on a per-time-period basis versus one upfront purchase, so as you go through that on any offering, you've got to navigate the piece that the revenue comes over time rather than all upfront, but it's a more profitable, more how customers want to buy kind of experience that when you get through that transition period, is a pretty good outcome. So we'll have to go navigate that, but you'll see, as you do in any as-a-service business, there's some transition period that you have to go through. And we think that's a process of years in my business.

Paul Coster: Let's wrap with my last question. We've run out of time. I beg your pardon, Sam, but any comments on the supply chain? Any constraints on CPUs, commodity price inflation, deflation?

Sam Burd: We have a really good supply chain team, and that's been important in the past year. One thing I have customers looking for is also they want to make sure they can get a product when they need a product. And whether it's navigating demand spikes out there--not so long ago I was celebrating the end of 2020. But it's like we were going through multiple tariff scenarios and lots of things to figure out. So that team has been super, super busy, going and making sure we have the supply that we need and we can get things done for our customers.

We've seen not big changes in the environment, Paul. We see things--Q3, last quarter, we talked about, was slightly inflationary. We see Q4 as a slightly deflationary quarter. Probably the bigger thing we're working through is just some of the supply things going on as we've seen the demand we talked about materialize. And I would--CPUs today are in better shape than they have been in past quarters. The piece that we're working on is just silicon and IC shortages as the demand for electronics across a number of industries has been pretty big. So whether it's ICs or LCDs or really the components going into LCDs like TCONs and driver ICs, that we're sorting out how we get those parts. But we have good partnerships. We're going to have to go navigate that. I think demand for electronics and technology is probably going to stay pretty good. Some forecasts have that growing for next year, so I think some of these supply things will be with us for a little bit as we navigate making sure we have all the parts that we need.

Paul Coster: Sam, thank you so much for participating today. Thanks, everyone, for dialing in to the JPMorgan CES Tech Conference. And I'll make it a wrap at this point. Thank you, Sam. Thank you Hall as well in the background who are arranging this. Appreciate it.

Sam Burd: Thanks a lot for having me, Paul. Take care.

Paul Coster: Right, okay, bye-bye.