

Company Name: Dell Technologies Inc (DELL)  
Event: Evercore ISI Inaugural TMT Conference  
Date: June 07, 2021

<<Amit Daryanani, Analyst, Evercore ISI>>

Good afternoon, everyone. My name is Amit Daryanani, IT Hardware, Networking analyst here at Evercore, and I'm delighted to have with us Dell Technologies here for our next fireside chat. And we have from Dell, Yvonne McGill, Corporate Controller and CFO, Infrastructure Solutions Group.

We will keep the fireside chat to around 30, 35 minutes. I'll spend the first 20 minutes or so going through the questions that we have prepared. I will open it up to the audience for questions post that. So if you have any questions, please feel free to either email them to me or better yet put that on the chat function on the webcast. And I can kind of weave them into our discussion as we go through our questions if you want.

But before I do that, I won't read the safe harbor statement. It's been a career ambition for me to do this. So I have to thank you on to letting me do this today. You used to safe harbor statement from Dell. Dell Technology statements that relate to future results and events are forward-looking statements and are based on Dell Technologies' current expectations.

Actual results in 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 filings with the SEC. Dell Technologies assumes no obligation to update its forward-looking statements. We did a good job.

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

Well done.

<<Amit Daryanani, Analyst, Evercore ISI>>

Perfect. Yvonne, thank you very much for being here. I'm really excited about getting to spend some time with you, getting your perspective on a whole bunch of topics. But I think before we get into it, maybe what – reflect back on the last quarter, the last year that you had and really, so I think what fiscal 2021 broadly, it was a record year for Dell. You reported extremely strong numbers you've had a really good start to fiscal 2022. I think Q1 top line growth was 12%. Could you just maybe provide a high level overview of what have you accomplished last year, what are the key drivers that I think enabled this performance in Q1? And then we'll dig into discussion from there?

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

Great. Thanks, Amit, and thank you for having me. Certainly, last year was an unprecedented year, right, for all of us and quite a challenging year but one we're very proud of. We remain focused on our customers on helping them to move forward and delivering outcomes really for what they needed in the environment we were in. And we were very pleased with results for last year.

FY21, a record year for Dell Technologies. Certainly not what we were thinking this time last year would be the outcome. So record revenue up at \$94.4 billion, 2% growth but still record revenue. Record operating income of \$10.8 billion and that was up little bit better, 6% growth year over year. And record cash flow from ops at \$11.4 billion, up 23% year over year. So really pleased with that performance.

We leveraged the breadth of our portfolio in our global scale and our operations, right? We have the largest sales – selling engine in tech, so a powerful sales force. Our services business really helped last year with you know 44,000 global services and support team members. Our supply chain, what a year for the supply chain to demonstrate their resiliency and the capabilities that we've put in place. They weathered challenges of global trade tensions and global pandemic all in the same year and certainly, that's something we'll probably talk about.

They're continuing to be tested this year. And then Financial Services. Our Dell Financial Services business really provides a broad range of flexible consumption solutions as well as financing capabilities, really an asset for us. And I would also add, the direct relationships that we have with our customers is really core to Dell as those are – those direct relationships. We certainly have a strong channel and strong channel relationships too, but direct is core of who we are.

And then our culture, right? I talked about focusing on our customers. We have to focus on our team members. And so really proud of FY21. But also proud of the start we've made FY22. We always say, if you have a great start to the year, it's indicative of how the year's going to go.

And so that great start, you mentioned \$24.5 billion, up 12% in the first quarter with growth in all three business units, especially CSG with growth of 20% year over year. So remarkable there. Another record first quarter for our CSG business, an all time high in operating income of \$1.1 billion. Just a really strong start to FY 2022. And then ISG, I want to make sure I call that out. We saw ISG return to growth at \$7.9 billion, up 5% year over year. Server demand improved as we were expecting.

So it was great to see that come to fruition. And then storage momentum, you could see it coming back. So we made it to flat year over year at 0% but better than what it had been. So starting to see recovery there. So very pleased, like I said, at the start to the year and our focus really is going to continue on delivering technology solutions that drive those experiences for our customers and insights and outcomes so that we can continue to help afford our customers' progress.

<<Amit Daryanani, Analyst, Evercore ISI>>

Perfect. One of the things that I think I've talked to every company today, and this has been obviously top of majors, supply chain issues. And I feel like they come in two formats, so there's a lot, but in my head, I think about component shortages that are impeding one revenues for Dell, for example, and then component inflation that's happening across the board. It could be freight, logistics, what have you, right? Maybe just talk about the impact this is having on your business at Dell Technologies and when should we expect these challenges to abate or subside as we go forward?

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

Sure. Amit, it certainly is top of mind and a topic we've been talking with many investors and analysts about. So certainly, I think it's well known that this is not an IT only supply situation, right? This is well beyond IT hardware and impacting many industries all across the world. It's been exacerbated in our industry for two main reasons, right?

Increased demand with the global economy improving and then that acceleration of digital transformation, right, everyone, one PC per person, right, as opposed to maybe one per family, et cetera. And I know I have more than one, I hope you all do too. But I think we've seen that. And supply just hasn't been able to keep up. From a Dell Technologies standpoint, we continue to execute our strategy, right? We have had component shortages before, we have had cost increases before, so we are continuing to execute that strategy.

Most of the impact, most of the shortage we're seeing right now are in the CSG space. And we have some extended lead times and we would say to expect to see those extended lead times continue on PCs into the foreseeable future. For Q2, we also see the component cost inflation starting. And it's primarily across displays, memory and NAND right now but we're also seeing increased logistics costs, right?

Certainly, there's limited availability on containers, driving premiums up on availability of transit. And air and ocean freight rates are increasing limited flight capacity still and so we're navigating through all of that. From an ISG standpoint, from a server and storage perspective, really no significant supply constraints at this time. But we are seeing input costs increase around DRAM and NAND. But in terms of our ability to meet demand, we're not anticipating significant issues from an ISG perspective. You'll see servers generally on standard lead times right now.

I'd say from a component cost, we expect them, we've talked about them being inflationary in Q2 and probably inflationary through the rest of this fiscal year, this calendar year based on what we know today. But we are pricing for that increased cost throughout the rest of the year and being thoughtful because we do like the growth that we're seeing.

And so we want to make sure that we are doing what we need to do to balance out profitability and growth. And I would say the supply constraints, we think probably continue at least through the remainder of this year. And we'll continue to have our global operations team, our supply chain team, continue to do what they do. And hopefully, they'll have a calmer year maybe next year. But they're good at what they do and I know that they're enabling our success.

<<Amit Daryanani, Analyst, Evercore ISI>>

Fair enough. It's interesting to talk about how you have multiple at computers or PCs...

<<Yvonne McGill, Corporate Controller, Chief Financial, Officer Infrastructure Solutions Group>>

Yes. You never know...

<<Amit Daryanani, Analyst, Evercore ISI>>

I'll start to convince my IT team that I need two laptops, because I want the same set of at home and at work. And I don't want to dig it back and forth managing, I would rather have them both at a same place.

<<Yvonne McGill, Corporate Controller, Chief Financial, Officer Infrastructure Solutions Group>>

Absolutely. That is the right approach.

<<Amit Daryanani, Analyst, Evercore ISI>>

I will let my IT team know. So hopefully that helps me. As I think about this and clearly, the supply chain stuff, it seems like a bigger issue on the CSG side than ISG. But I curious has this created a bigger backlog, anything you can talk about from a backlog perspective across CSG and ISG?

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

Yes. I mean, we have seen backlog increase from Q4 to Q1. And we do expect it to remain elevated throughout the remainder of the year. It's going to be quite dynamic and we'll continue to work through it but we do believe that we are well positioned to navigate. But there is not enough supply for all of the demand as I mentioned in the PC area.

<<Amit Daryanani, Analyst, Evercore ISI>>

And then maybe just to think through the CSG dynamic, right, the stronger PC markets have held up I think a lot longer than what anyone thought they would in the pandemic have certainly helped that process. But as you think ahead on this, how sustainable or what is the sustainable

rate for PC demand as we go forward, either in the back of the year or even longer term? And maybe the one thing I do want you to address on this is, I kind of was very notable in and that the commercial segment has shown double digit growth for two quarters in a row. How do you see that market very specifically stack up as a return to work target takes place.

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

Great question. Let me try to address that. We are very pleased with the CSG performance. It's not often that you can multiple quarters, say, record performance, record profitability. So certainly pleased with that. Strong demand environment still. But we're watching it closely, right? Because there is lots of discussion about how do we manage – how does the component cost environment or supply have shaped demand going forward? If I think about inflation also, we are going to price that cost inflation in and we've already been doing that.

We need to watch the demand environment though and be cautious to make sure we're not doing too much, but we will stay in our price position. We did see strength in commercial. You called out. Commercial revenue was \$9.8 billion, up 14% year-over-year. We are more weighted towards a commercial than a consumer environment. And so we really – we're pleased to see that growth. We had double digit orders growth in our Latitude and Precision Systems and commercial Chromebooks. And also in the first quarter, we saw desktops return to growth. And so it was hard to get anybody to put a desktop at their house. But as people are coming back to their office, we're starting to see those aged desktops get replaced, which is great.

Future expectations, really no indication of right now of the environment slowing down. If I think about CSG from a long-term standpoint, those trends continue. IDC and Gartner say that TAM in client ecosystem is expanding from \$600 billion in 2019 to projected \$750 billion in 2025. So that's a lot of opportunity for us. PCs we've talked about are more essential than ever and we want to make sure that people can do from anywhere what they need to do. And we have talked about increased systems per household maybe per work also.

And people want faster, they want the best system, they want – expect faster refresh cycles now. You're not going to – with a mix more towards notebook, we see that that refresh cycle will be quicker. And we want to see that ecosystem build also around the PC. And lots of investments like you talked about and hybrid work and so that's a great opportunity for us, too.

Our investments are focused on making that PC more personal, more intelligent. And we continue to work on modernizing that relationship in the core business. I'm trying to think what else. I think we're just really optimistic about the future of CSG. One of the things we do and have been focused on for a long time is consolidating through ongoing share gain. And so whether you look at projection from IDC for next year where the market might decline a little bit that TAM expansion is opportunity for us. And so we still feel very confident and very positive about the future of CSG in the client space.

<<Amit Daryanani, Analyst, Evercore ISI>>

Perfect. And maybe if I shift gears a little bit towards the ISG side of the company or the demand backdrop. I think it's been really tough for the last year at least for you folks. You mentioned this only but Q1 was a nice reversion. We saw it was plus 5% growth for ISG in aggregate, if I'm not mistakes. And I think the sense is the positive momentum should sustain. I guess, two parts to my question. One, where is this growth coming from? Do you think it's a cyclical recovery or there's more secular in nature, what's driving the recovery from a macro basis? And then secondly, what should we expect from a server and storage basis for the remainder of the year in ISG?

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

Sure. Last year was a pretty tough demand environment for ISG. And it's hard to be the CFO of ISG with a tough environment. So certainly, we saw companies really pushing their budgets towards specific areas, whether it was work from home, business continuity or really just digital transformation activities.

What we're seeing now and what we expect is that budgets will normalize and we're starting to see that. You can see that reflected in our results towards infrastructure and a rebound really in data center demand. Improvement we see in really the end of last year and going really into this first fiscal quarter, we did see, as you stated, 5% growth in overall ISG. But that was really a tale of two categories there.

Server and networking grew at 9%. So that was great to see that rebound, that increased demand for infrastructure compute across our customer base. Server buyers actually increased 10% year-over-year, growing in all regions. So again, great to see that recovery. And PowerEdge orders were up 7% in Q1. So we continue to innovate here. We continue to launch new offerings. We just launched a new AI enabled PowerEdge server. And so we're pleased with that recovery in servers.

Now let's go to storage because storage, although not positive growth came to zero, so flat year-over-year. And we are pleased with that because that's showing progress. We had lots of highlights though. In mid range, we actually grew 23% year-over-year, really led with our PowerStore offering, which continues to ramp nicely. Our storage server – our storage buyers actually grew 11% year-over-year, driven again by that power store growth. And we saw HCI up 23% year-over-year, driven by VxRail, one of our best solution offerings with VMware.

We saw other things, though, you can't have positive 23 and positive 23 equal zero and so we had declines. And so we did have high end actually be a bit softer for us. We do have 50% market share in the high end and certainly a very cyclical nature of that around mainframe refresh. So we had nice performance last year, and we're seeing that recovery this year or the decline this year associated with that performance last year. So we continue to keep the storage product lines fresh too.

We talked about – we've refreshed the whole portfolio around the Power brand. We recently launched another great software upgrade, non-disruptive software upgrade to PowerStore, so

that's the fourth one, I think. And we introduced this new offer, the PowerStore 500, which enables really a new class of customer. It's a lower entry point price for PowerStore and so we're excited about that.

And then I'll close off with what about the remainder of the year, what about the opportunity for ISG. So IDC says servers are going to grow modestly for the rest of the year but storage should be up for a little over 4% for the full year. So if you start at zero that looks like we'll be increasing performance as the year progresses. We believe that demand will continue to improve.

We thought that. We saw that coming from Q4 to Q1 and expect that to continue. And then touching on the long term, the TAM for our infrastructure business continues to expand. So I've got TAM expansion in CSG and TAM expansion in ISG growing from approximately \$150 billion in 2019 to expected \$200 billion in 2025. So we're excited about the prospects and we are looking forward to continued growth in the infrastructure business.

<<Amit Daryanani, Analyst, Evercore ISI>>

Perfect. I guess, maybe if I could get a little bit more clarity on the server side of it in Q4, right? The 9% growth last quarter was extremely impressive. If you could maybe unpack that just in terms of how much of that was units versus ASP driven and do you think share gains played a bigger part than end demand in the 9% narrative?

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

Sure. So from a share standpoint, we're going to have to wait. IDC will release this week share results. I think they said June 10th based on their – what their Web site says. But we are number one in market share with mainstream servers at 28.2%. And we have gained actually an impressive 530 bps over the last five years. So pleased with that. To your question of, was it units or was it ASPs? Really a combination of both but I would say primarily unit driven with modest ASP growth.

We expect that server ASP growth trend to continue though. We've talked about commodity cost increases. We're attaching more memory per system and that continues to increase. So we do see that continued expansion there. And really seeing a lot of higher value use cases with AIML coming in, driving, again, richer configs, higher end systems and focusing on expanding our leadership there in the high value workload area.

<<Amit Daryanani, Analyst, Evercore ISI>>

Perfect. Yvonne, I was prepping for our discussion today, asked a bunch of clients, investors, what should I focus on? And there were two times that came up a lot, the one that did that I want to talk to you about is really the storage business. And then I think that I heard your comments that we're flat, industry is growing 4%, we should have some growth, and I only get that comment.

But I think you have – Dell has spend the last several years, I think, simplifying, reintegrating their storage portfolio and now it's kind of all done. I think it's all done, maybe I'm wrong, under the power brand. How do you feel about the positioning of your portfolio and should we start to think about Dell starting to gain some market share back? But you could talk about it broadly but really I think mid range what – people would love to understand what's happening.

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

Absolutely. We have spent the last number of years simplifying and consolidating our portfolio, and really having a lot of success in that 250,000 and above space in our power portfolio. You've got PowerMax, PowerStore, Power Vault. If you put power on it, it sits there, right? But we went from 88 different platforms to roughly 20 across the portfolio. So a pretty dramatic change there. And the challenge, though, has been in the mid range. It's the largest single portfolio in the marketplace, and PowerStore is our vehicle that we built for this area. Now we were – as we've talked about before, later to market than we wanted to be, but we're there now. And we're starting to see a really strong trajectory in the mid range.

I think PowerStore is that catalyst to change that trajectory and that share gain in the mid range. We still are number one but we haven't been continuing to gain share. IDC says the mid range subsegment is 60% of the overall external storage market. So clearly, you have to be successful there. And it's expected to grow 9% this year. So I mentioned we're the leader. Mid range grew 23% in the first quarter all on the back of PowerStore.

And we've had other successes too, around net new customers, et cetera, that are being driven off of that power to our success. So I think it's a good start so that would be the fourth quarter that PowerStore was there. We thought it would be a six to nine month ramp to get momentum there with the new technology, and it's been just that. So we're very excited about the future, off to a great start for the first quarter of FY 2022.

<<Amit Daryanani, Analyst, Evercore ISI>>

Perfect. Maybe just touch on ISG profitability, if you may, right...

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

Okay.

<<Amit Daryanani, Analyst, Evercore ISI>>

And maybe help me understand this both on a nearer-term and long-term basis. Near term, I think the question really is ISG margins, I think, were up 30 basis points to 10% last quarter. Given the sales upside, I would have expected more, I'd love to just understand the crosscurrents then you have touched on this a little bit earlier with the mix, but I would love to kind of flush



that out. And then longer term, importantly, how should we think about ISG profitability ranges as we go forward?

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

Sure. So 30 bps mix certainly was a play in there but we continued to add – last year, we took out a lot of operating expense, right, mostly people driven. So merits of hiring 401k match, all those type of things and we added those back in the first quarter. So that had a little bit to do with that, only being 30 bps but we're seeing those costs come back.

You'll see that a full quarter of that come back in Q2. But we're focused on making the right investments for the long term also. And so we're trying to make sure that we are investing in our future growth vectors around whether it's Apex or Apex offering as a service offering or edge, telco, et cetera. But we also have the supply constraints we talked about that are having some – will have some impact on profitability, so talking about going forward.

We expect component cost to be inflationary in the second quarter, primarily in NAND and DRAM and expect that to persist based upon what we know for the rest of the year. We are taking price moves and passing that cost on as the market will bear. And so we will stay up on that and stay competitive. But you could see operating income down low to mid single digits sequentially Q1 to Q2. But certainly, as the momentum builds, as we continue to get that storage performance back growing, it will have a positive impact on operating margin for the ISG business.

<<Amit Daryanani, Analyst, Evercore ISI>>

Perfect. That is really helpful, actually. And then, on Apex, right, it's really actually a little over a year ago, if I'm not mistaken. But I'd love to understand how has Apex really evolved in the last 12 months? And you know your perspective, what does it bring to customers and how is this different from what your peers are offering? Because it does seem like a lot of folks offering this service. So what does it bring to customers and how is it different from your peer offerings would be helpful?

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

Sure. So certainly, the Apex evolution, if you will, it's just an extension of what we've been doing from an IT as a service. We've been doing IT as a service for a long time. But it builds on really the thought around simplification of that offering and really more of a turnkey offering. We have been doing this for some time. And we believe the growth in Apex offerings, the way we're going to market and delivering is the differentiator.

I think one of the evidence points that we have for that is our remaining performance obligations. We saw a 15% growth to \$42 billion in the first quarter. And excluding VMware, we actually saw 18% growth in that area. We saw really nice performance in the first quarter in our, I'll call

them, our custom solutions, our Apex custom solutions, which had about \$164 million in revenue. So we continue to see that.

But from a – overall, why would you pick a Dell as a service offering, I think it's kind of your question. We really think it builds on our expertise. And we think that we have the scale, the capacity and the know-how to do this for customers across the globe. And we have many different evolution, lots of different offerings, right? We have data storage, so stored as a Service. We have different custom solutions. We have cloud services, et cetera, right? And so really building up that portfolio right now and making those investments. And as I think about, hey, so what does that mean – you might ask, what does that mean to the P&L?

We've – again, we've been doing this for a while. And so we expect these newer offerings, these new turnkey offerings to take a while to build up, so that we don't expect to have any really material impact on the financial statements in the next year. We're really focused on acquiring customers having as many customers as we can on our new turnkey offers from an Apex perspective. So that's really how we're, I'd say, measuring our early success will be on big customer wins and how fast we can ramp that business.

<<Amit Daryanani, Analyst, Evercore ISI>>

Perfect. And then I have to ask you a question on the debt paydown and the free cash implication year or so, if memory serves me, the target is to pay down \$16 billion of debt this year in fiscal year. I think we've done \$2.5 billion of that in Q1 already. But to do the \$6 billion number, maybe tell us what is that dependent on, what the buckets of how you pay that down and then when do you expect to achieve investment-grade rating?

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

Sure. So let me hit on that. How do you get to \$16 billion, it's a pretty impressive number. But I would say one of the key drivers there is the dividend coming as a result of the VMware spend. And so we think of the \$16 billion that drives somewhere between 9.3 and 9.7 of that. And then the rest really I would say is from an operational performance standpoint, if you – we did announce that Boomi, for example, we sold for \$4 billion and there will be net proceeds after tax coming from that transaction, but that's not even considered in that \$16 billion. So I don't mean Boomi to do that debt paydown. We'll evaluate what to do with those proceeds as the time comes closer for that.

But really feel like we are positioned, I know you know we've been – after we announced the spin that S&P, Moody's and Fitch, all indicated that we're put on credit watch positive or credit under review, and that expect to be investment grade post then. And so really, right now, it's about achieving investment grade and then maintaining it going forward. And really targeting – we're targeting a long term core leverage of about 1.5 over the long term. So we're pretty excited about becoming investment grade again, excited about our opportunities going forward and put that – the impact that will have on really opening up our aperture for how we spend our free cash flow.

<<Amit Daryanani, Analyst, Evercore ISI>>

Perfect. I'll look forward to hearing at in Canada joining as well. I know I'm up on my time over the 150 mark. So I'll pause here and Yvonne, this has been a very broad reaching discussion across different parts of the portfolio. Is there anything we didn't touch on that you want to make sure investors – do you want to make sure I'm aware about as you wrap this up. And I really want to thank you for your time. This has been really helpful. So I'll turn the mic back to you.

<<Yvonne McGill, Corporate Controller, Chief Financial Officer Infrastructure, Solutions Group>>

Well, I thank you for the time and really want to make sure that I get across that we are focused on really long term value creation for our investors, for our customers and feel that the opportunity that we have going forward to have GDP, GDP plus growth is quite achievable. And we are looking forward to the future, the continuance of – I hope we have more record quarters ahead of us. Maybe this would be a good point to start with another record Q2 to be on top of record Q1. But really excited about the future and what we can deliver for investors, for our customers and for ourselves. So I guess, that would be it. Amit, you're on mute.

<<Amit Daryanani, Analyst, Evercore ISI>>

I almost went through the whole day with...

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

So close...

<<Amit Daryanani, Analyst, Evercore ISI>>

So close, it was exactly 15 months into this pandemic, you think I'm on mute, well, but I don't. But thank you very much for your time and we'll wrap it up with this. So thanks a lot, everyone.

<<Yvonne McGill, Corporate Controller, Chief Financial Officer, Infrastructure Solutions Group>>

Thanks, Amit. Appreciate it.