

Dell Technologies

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Tim Long: Hi, everybody. Thank you for joining us here. Tim Long, IT hardware analyst at Barclay's. Very happy to have Sam Burd who runs the Client Solutions Group at Dell with us today. First, I'm going to read a disclosure here. Dell Technologies comments as it relates to future results and events are forward-looking statements based on the company's current expectations. Actual results and events could differ materially due to a number of risks and uncertainties including those discussed in the company's SEC filings. The company assumes no obligation to update its forward-looking statements. There we go. Good.

Maybe, Sam -- thank you for coming again. Maybe if we could start off talking a little bit about kind of last quarter. Give us a little recap of what you saw on the PC side, customer demand and kind of outlook into next quarter, and we'll take it from there.

Sam Burd: Happy to do that. I lead our Client Solutions Group, essentially our PC business. In that business (inaudible) PCs, we have displays, peripheral services, everything around that business. It's where our company started. We're about to celebrate our 40th birthday so that is an exciting time. The other good thing is (inaudible) really well. It keeps our team and myself on our toes. You put that together with our infrastructure business, those 2 businesses together equals Dell.

Last quarter we saw about an 11% decline in our business. And we saw an interesting trend, because in summer timeframe, in June/July, we see a lot of positive momentum in the PC side. That continued into August and built our guide for Q3. As we finished out that quarter, we saw less than the ramp up that we expected in September/October, and we saw weakness in large enterprise demand. That translated over into the Q3 that we saw. We looked ahead to Q4, as you kind of look at the dynamics going in in the industry, we see (inaudible) continuing over to Q4.

If you look at industry pundits, they kind of are forecasting a quarter in PC space to be down about 5% quarter-on-quarter in a quarter that's typically up every year sequentially. We think our business will do better than that. We expect to be down low single digits in our business, but I think if you look at the market view and our view, we're seeing continued caution among large enterprise customers.

All that said, if you look at the broader view and you get out of a quarter-by-quarter mechanic, we see a lot of reasons to be optimistic in the PC space. We have new capability coming to PCs. We have a large installed base that is (inaudible) to be kind of positive indicators of demand in the future.

Tim Long: Just digging down on that, what are you kind of hearing from folks? Is this macro or maybe there was more purchases and tougher compares? What do you think is driving the little blip we've seen here on the demand side?

Sam Burd: Well, Tim, we've seen a difference between large enterprises and some of our more transactional and small business customers. For enterprises, we've seen the macro environment has caused some caution in spending, and that's where again, this dynamic of there's an installed base in PCs that need to be refreshed. The customers I talk to realize that. They're also trying to balance the legit needs they have to refresh with what other things need to be done in the corporate environment. And that tradeoff is causing a lot of angst because they realize, hey, I can be the budget hero this quarter, and 2 quarters from now, I'm going to not be putting the right tools in the hands of my employees. I've got to think about employees, I've got to think about infrastructure, all while spending where more technology spending by companies tends to equal those companies performing better. They're sorting through that spend that they need to do on PCs in a macro environment with a set of PCs that need to be refreshed.

In more transactional segments, we talked about more stable demand in Q3. We've seen those businesses deciding to invest. Those businesses, interestingly in the past, had usually been bellwethers of better kind of demand environment out there in the industry. I think when you put all those things together, what we're hearing is customers say, I know PC is really important for my workers, it's a core productivity tool, I'm going to need to refresh it, I need to fit in that my kind of large enterprise budget envelope in the discussions we're having and macro environment we see as a company.

Tim Long: Okay. Obviously not alone. A lot of companies that I cover in the enterprise world have been seeing the same macro impacts. Maybe take a higher-level view here to pre-COVID levels. Your largest competitor, same dynamics. Can you talk a little bit about what's changed in the PC industry that the leading companies have been able to sustainably hold a much better operating margin than previously before all this component and COVID situation?

Sam Burd: Yes. You have it exactly right. If you look to the 2 years before COVID, our operating margins were 4.9%. If you look at the last 3 full fiscal years, we were at 6.8%. If you look at us year-to-date, we're tracking ahead of that. Now, we've benefited from a lot of good things in our model driving that performance year-to-date. If you look at a differentiated business model with direct to complementary channel, it drives a business mix for us. It's a richer set of PCs that we're selling, that's better margins that we go on target.

We've had a highly deflationary cost environment. Again, our unique model with low inventory is really good at capturing that cost deflation first before our competitors putting that onto our P&L. You see all those dynamics in play as we think about the course of this year. We talked about we see some of those dynamics changing as we get into Q4.

Our long-term framework operating income view for our business at the CSG business is 5% to 7% operating income. We think that's a good range that we expect to be in over the

long term. And as we get into Q4, by contrasting that with Q3, we're going to see that deflationary environment kind of change, some of the dynamics change there. We're going to see commodity costs becoming more neutral in Q4 and we think become inflationary next year.

We also saw as we went through Q3, as that demand didn't materialize, we get into the typical dynamic where then we see more price aggression. We saw that build in Q3. We expect that dynamic to continue into Q4. Our guide as we talked about Q4 was then operating margins that are lower in the PC business as we get into that Q4 timeframe, more falling in that long term range that we laid out.

Tim Long: Okay. You mentioned some of the positives affecting margins. Could you talk, as you look out the next 1, 2, 3 years, kind of your top 2 or 3 priorities for the business that set up Dell to succeed here?

Sam Burd: Yeah, we, as you look at how we drive those kind of operating income margins and the differentiated performance versus our competitors, we've done a good job if you look over COVID, Tim, of growing our presence in the most profitable places in the market. That's been part of our strategy. And our intention is to continue that approach.

We updated folks on our strategy in October. If you look at that and you look at what we've talked about before, the strategy has been remarkably consistent. It's also been very successful. Two key pieces that we have in that. Number one, we target the best, most attractive, most profitable segments of our industry, so that's a really good thing to go do. And then we're focused on how do we extend our lead and capture new growth in those segments.

You think about the first piece of that, the segments that we go after, we're more weighted towards commercial, workstations, premium consumer than our competitors in the industry. It's a really good space to play in. It has durable demand. When you look at our business, if you just take our client business, compare that to our competitors, our kind of total revenue per unit in that business is approaching 2x our competitors. We see that kind of differentiated mix, the different space that we target, show up in our P&L.

The second piece of that strategy of go extend our lead and capture new growth, we have a really different model that we execute. You look at our direct model and a high mix of our direct business with the complementary channel, gets us to a great kind of ability to engage customers, be their advisor. Also think about our breadth in not only the PC space, but the enterprise infrastructure space. We can really work with companies as they're figuring out what technology they need to put in place in their business. We have leadership offerings in that segment that we can help them figure out the strategy that they need.

We've got a great product lineup, driven not just by engineers who are super passionate about what they do, but insights we get from all that customer engagement. We've got a worldclass supply chain. In the world today, customers want people who are going to be able to deliver. We've got a great services footprint. 170 countries. We can take care of customer technology. You put all that together, and you go customer are voting with their dollars on our business, and we've been able to extend our lead. The last decade, we've made 10 points a share, nearly 10 points a share in our commercial PC business. Gained nearly 9 points of share in displays. Number one positions in client revenue, in workstations, in high-end gaming. All that's been an ability to take that model, go prove to customers that we deliver value for them, and execute.

And then I look at the next year and the opportunity, I think about the opportunities we have in front of us with that strategic framework, it's go grow in the segments that we're going after. How do we sell broader solutions to our customers? We've done are really good job at PCs. Done a good job at displays and services. We're tackling an opportunity we see in the peripheral space, a \$30 billion TAM around the PC. Our customers want that all to work together. We're driving that solution for our customers.

And then the third piece is take advantage of the big installed base that's out there and the promise of more capable PCs that are going to help people win and be productive in a hybrid world, be productive in a world where it comes to the PC that you're using.

Tim Long: Great. If you listen to HP, they'll say, we're focused on commercial, high-end gaming, peripherals. It does seem like many, most of the larger players, are targeting the same areas. What do you think? Does that get more crowded in the go-to areas? Or does it become more competitive? Or is it an area where Dell has the lead and can defend much better than others trying to move up into those areas?

Sam Burd: Tim, we aim to have a high say/do ratio and a very consistent strategy. I would say the world is competitive and we thrive on going and winning every single day with our customer. Like the way we go, have those share gains and leadership positions, you've got to put the best product on the table for our customers. People can talk about the different spaces that we're going after. We say if you take our company and go back to 40 years ago to today, we are focused on delivering on the right things for our customers. Great products and a real sense of understanding our customers and doing what they need.

I think about my teams. We live, breathe, think about what our commercial customers need every single day. We do that in PCs. We do that in infrastructure where we have a very strong position. We do that across the company. And it's how we started this company. When you think about that kind of customer focus and passion, it's a powerful combination. It's a winning ingredient. If you look at any kind of book on strategy, you go, that's a really good thing to have. It's a consistent approach that Micheal has infused in the company from the day we started.

To me, saying you want to go do something and then having a model that's set up consistently executing on that hugely customer focused, hugely results focused big asset. And then we've got to deliver it to our customers. And we have a track record of doing that. We are invested in getting them great technology and that's the secret ingredient to me, a differentiated model with a passion for customers that says, we've won in the past, we will continue to win with a consistent focus on those customer segments. And they're higher value, they're great places to go after. That's why we put our focus there.

Tim Long: Okay, great. You've recently mentioned AI PCs in there, so let's start out with your definition and your view of what that's going to mean for Dell and for the industry and then we'll maybe dig a little deeper into that.

Sam Burd: Yeah. We see customers already doing AI on PCs. We have a workstation business. We're the leader in the workstation space. We have systems with very powerful GPUs to run up the core GPUs. Think about engineers, designers running AI workloads today, models with billions of parameters where they're able to do inferencing on the edge. We've seen 2 quarters of growth, year-on-year growth in that business. Clearly, an area of opportunity to help people who are thinking about putting PCs to use with AI.

Now to me, the question you also asked round AI compute and more broadly the opportunity in the PC space, how I'd frame that capability to mainstream PCs you see all of us are using every day versus just the workstation kind of creator segment. And we're going to see hardware coming and architectures on the PCs where we'll add neural processing units, so NPUs, that will be more power efficient and work on a laptop device and it will help us to run AI models natively on the hardware on a PC. That creates the opportunity for ISV software to be even better at driving productivity and capabilities on these key devices for our mainstream users.

That's where we're excited when we think about a large installed base. You think about more commercial PCs from the installed base being used today than we've ever had in the industry. I think about the COVID era and 305 million PCs being sold in that kind of first year of COVID that will be celebrating a 4-year birthday next year which is technically a cycle when we think about refresh. You think about Windows 11 coming, you think about a PC world where the systems that we're all using today, don't have NPUs in them. The systems of the future will have NPUs on them and be able to run AI models on those devices. And there's a great opportunity for us, elements that will lead to what we think is a more positive environment in the future in the PC space.

Tim Long: Okay. How do -- you said you have some of these devices currently being sold, but what do you think of kind of timeframe and slope of the curve for a little bit more mainstream commercial adoption for AI PCs?

Sam Burd: We think it gets out of that, or it stands beyond the workstation space that we're in today, to mainstream users. If you think about next generation CPUs that we're going to get, we will have neural processors built into the silicon. Think about Meteor-Link, AMD, Intel products that come out next year, they're going to have AI models running on PCs with that silicon.

We're going to see not a one and done kind of thing. We're going to see continuing enhancements in that capability. If you go forward next 12 months, go forward 12 months after that, we'll continue to see increases in that, that those NPUs and the amount of tops that we have on a system, ability to run multiple models and do more things on the PC. That's what we have to look forward to in the next 12 months as capability shows up on PCs, so PCs not enabled today. New PCs will have that capability.

Software vendors and ISV companies that I talk to often are very interestingly going, how do I tap into that hardware? To me, that's the most exciting part. Because that equals, that combination of hardware plus software equals innovation and ways to enhance productivity to make a logical decision around I want to invest in a PC for my users and ago do more. And we're going to see that start in the next year and it will build and each year after that, we're going to see more capability.

Tim Long: Okay. I think you guys talked on the last call, this should be pretty accretive to the ASPs. How do you think about -- you said you're already kind of 2x above your nearest competitor. What does that do to pricing and margins as these products start coming out and evolving?

Sam Burd: We think it helps keep at least stability in the ASP space and margins. We've talked, Tim, there's a big difference, if you've look at the infrastructure space, there's a bigger difference between AI and traditional kind of servers. That is a lot closer if you look at a PC environment. PCs with AI capability, they're going to have more advanced silicon in

them. As you run more models on the PC, you're going to want more memory so that you can run those multiple models on the PC. All those things will help our ASPs be stable/adequate in the PC space. We just want to future proof by PCs that are going to be capable.

They learn that (inaudible) technology equals better (inaudible) -- More technology equals more capability in COVID in the hybrid world. Suddenly the PC you have really added the power you want. We're seeing that same thing in an AI world. (Inaudible). More memory, better CPUs. We also have a history in the industry of we tend to take better performance and offer better value for people in the next lifecycle. We've got to put that all together. We've got commodity, different commodity environments coming together. We've got different levels of competitive capacity depending on what the environment looks like on demand. It's not easy to just go, hey, this is the only variable that sits and impacts ASP and margin. But it will help that and it will help drive what we've seen in more stable ASPs in the PC space as people think about AI on their devices.

Tim Long: Okay. And maybe last one on AI, could you talk a little bit about do you think this changes the competitive landscape? You talked about 10 points of share in 10 years, pretty consistent growth there. Is there anything about the transition to AI that Dell is in a better position? You obviously have an infrastructure business where companies selling AI servers and obviously a lot of software capabilities across companies. Maybe just touch on what you think happens with the competitive landscape as we begin this next stage of PCs.

Sam Burd: Yeah. We see even without AI, we see companies wanting to work with a company that can really be an advisor and partner to them across technology. And I would say that's heightened with AI. Successful companies are investing in technology. If you look at the leaders in industry, companies see that and realize they can think about where those investments are going to have the return, how they drive that in their enterprise. And something that we have that's a really valuable asset, when I look at my business and our client business, combine that with the infrastructure space, we have leadership positions across every one of those businesses.

Our team, our unique model, and a (inaudible) direct who engages with customers and helps them plot out that strategy that they need to think about around technology, and we've got a great portfolio behind that. They're getting great offerings in all those spaces, they can really work with our team. They don't have to go, hey, what is this company trying to sell me? We've got great stuff in every space. We can help them work through the tradeoff.

In a world where companies want less people to engage, they want to and have to plot a strategy in a complex world, build AI on top of already technology, we have a really capable go to market team that can engage with customers and help them work that strategy. I think that plays very well to our advantage. We've got to deliver great products. We've got to deliver for our customers. But we have a portfolio and a team that can sell and advise customers on that portfolio that's really unique in the industry.

Tim Long: Okay. You mentioned commodity kind of favorable now and maybe not favorable next year. Where are you with supply chain and logistics policy? Are we back to normal lead times? How is all of that looking for your business? I know the lower end remodel has really helped you navigate much better, so where are we at in that dynamic?

Sam Burd: We see great lead times on the client business. I see some people in the room today who need a holiday for themselves and family members, so I can help you. If you give me your credit card after this, I will set you up. It's a no hassle payment system. We see lead times are great, products are available to customers. More the dynamic we see is around the cost environment where we have some of the suppliers you think about. Memory, NAND suppliers, DRAM have lost a lot of money over the last couple of years. And as they change their supply dynamics, that kind of cost environment is going to weaken next year. But supply continues to be great. We're able to deliver to our customers. We have a really capable support team for going and doing that, so that's another advantage when you think about customers I talk to going, in a world with macro uncertainties, global environment uncertainties, I also want a technology company that's going to be able to deliver for me. And we proved we could do that during COVID. We have a lot of capability in that space that's valuable for the companies that are working with us.

Tim Long: Okay. Maybe if you think out multipole years, I think the latest expectation is 2% or 3% growth for CSG or PC business. What are the dynamics behind that? Obviously, we've had a rollercoaster of the kind of flattish, slightly up markets. There's big ups and then big downs back to where we started. How are you thinking about kind of longer-term dynamics of that growth?

Sam Burd: Longer term we see the TAM in our space, if you think about PCs, displays, peripherals around those PCs, growing about 2%. And that's driven off the -- the discussion we have, Tim, it's driven off an installed base, a capability and innovation that we think will drive refresh of those PCs and the devices that are in the PC. That's a growth environment. We see that -- that mileage can vary across cycles. We set our long-term revenue growth in the CSG business at 2% to 3%, so we see ourselves gaining share in that environment and capturing more revenue as we deliver for our customers.

That's across, we average that across a lot of cycles and we also started to talk about next year we'll have more to share as we get to the end of our Q4. But we said we expect next year to be above our long-term framework revenue growth for the businesses. We talked about in the PC space we look at our internal model in how we look at the PC space. We see more like 3% to 4% growth in the PC world next year which led us to say, hey, we think revenue will be above our long-term framework view for the next year.

And it's a combination of that kind of installed base dynamic we talked about that's going play out. The customers you and I talked about together, of balancing enterprise budgets with demands of those end users, that we see that opportunity. It's going to materialize. We're going to have those units show up and we like the portfolio we have. We've got to be passionate about putting together great products and we're doing to deliver that to our customers.

Tim Long: Okay. We've got like a minute or two, so maybe just the last one here is just can you talk a little bit about where you're investing, whether it's organically or inorganically? Sounds like it will be around those value segments of the business, but any color you can provide like where you really want to put some capital behind to really maximize the opportunity?

Sam Burd: Yeah, you know, we always look externally at capabilities we could add, but we did capital, we're talking about acquisitions, anything we did in the space would be at the tuck-in kind of variety, have to fit well with our strategy. When I look at our CSG business though, as I see the opportunities on great products, AI capability, the ecosystem around PC, we really believe we can capture that kind of growth and extend our

leadership, capture new growth opportunities organically. You've seen us do that, Tim, with the peripherals business. We've expanded our offering there. We've hired people with great industry expertise. We've built a roadmap and are building a roadmap that's very competitive in that space. It's a \$40 billion TAM that we're going after. We did the same thing in the displays space. Leadership position today, a \$30 billion TAM opportunity. We always look for acquisitions that make sense to us, but in the CSG space, we've been able to do a lot organically and anticipate that being the case in the future.

Tim Long: Okay. Great. Well, thank you very much for your time. Really appreciate it. Thank you, everybody, for joining and his offer for credit cards --

Sam Burd: I'll be by the door at the end. Thanks, Tim.

Tim Long: Thank you.