Dell Technologies Inc at Citi Global TMT Conference

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CORPORATE PARTICIPANTS

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PRESENTATION

Philip Dury - Citigroup Inc - Analyst

Well, look, it's a great pleasure to warmly welcome all of you to our Citi Global Tech Media Telecom Conference 2024. My name is Philip Drury, I'm the Global Head of TMT Investment Banking at Citi. This is the first time we're bringing together both corporates and investors from across the broader sector. So technology, media and telecom in one single event.

I also think that's illustrative of the amount of convergence that we're currently seeing across the industry. That means that this year's conference is our largest ever. We've got 250 corporations registered and present and over 1,600 investors in attendance. That does mean that we can't find space in New York City for everybody. So very appreciative of everyone's patience as we try and get through the number of meetings that we have.

Over the next 3 days, we have thousands of attendees who are going to come through and listen to a combination of panel discussions, keynotes and very valuable one-on-one meetings.

At Citi, we take pride in bringing our clients together, establishing new connections and opportunities for growth. As the world's most global bank, our reach allows us to offer a breadth of connectivity that few others can match. And I hope that you will have the benefit to experience that here today and over the next 2 days.

Our next guest needs very little introduction, and is Founder, Chairman and CEO of Dell Technologies, it's a great pleasure to invite Michael to join us here on stage. With over $100 billion of revenue in its last fiscal year, Dell Technologies is one of the world's largest technology companies. Michael's Company serves the needs of the largest global corporations and governments as well as small business and also consumers.

Dell delivers essential infrastructure for organizations to build their digital futures, harness the powers of artificial intelligence and protect their most important information.

I would also say that Michael takes great pride in Dell's commitment to ethics and privacy. Dell is world renowned as one of the most ethical companies. Beyond Dell Technologies, Michael has also established a foundation to accelerate opportunity for children growing in urban poverty. And among his roles, he's an honorary member of the Foundation Board of the World Economic Forum and Executive Committee member of the International Business Council and a member of the Technology CEO Council and The Business Roundtable.

With Michael today on the panel stage, we have Asiya Merchant, our research analyst covering the technology hardware and tech supply chain sector. Asiya is a great partner, been with Citi for 20 years and is a regular feature of the institutional investor ranked teams since 2008.

So with that, it's my great pleasure to warmly welcome both Michael and Asiya. Thank you, everybody

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Asiya Merchant - Citigroup Inc - Anayst

Thank you, Philip. I have been asked by Dell to just read some safe harbor statements. So before we get started, I'm just going to do that. Statements in this presentation that relate to future results and events are forward-looking statements and are based on Dell Technologies' current expectations. In some cases, you can identify these statements by such forward-looking words as anticipate, believe, could, estimate, expect, intend, confidence, made plan, potential, should, will and would or similar expressions. 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.

All right. Welcome again, Michael. It's a true honor to have you here

QUESTIONS AND ANSWERS

Asiya Merchant - Citigroup Inc - Anayst

I'm going to get asking with sort of the first thing -- Dell just reported last week. For those maybe somebody would be on holidays, et cetera. How would you characterize how Dell performed relative just to the broader macro backdrop that you guys are operating in?

Michael Dell - Dell Technologies Inc - Executive Officer

Well, first of all, thanks for having me. Great to be here. If you look at the broader backdrop, IT spending this year is growing about 6% to 7%, which is pretty good. Our core CSG and ISG businesses grew 12% in the second quarter. ISG specifically grew 38% and on the back of the incredible interest and momentum in AI, in our servers and networking grew 80% year-over-year. And we continue to see a great deal of momentum there.

The PC refresh has been pushed out a bit, but we think it's coming. There's a large installed base, and customers are certainly looking forward to all the new capabilities that an AI PC can bring as they're planning their refreshes.

And the AI opportunity has expanded the TAM, and we're starting to see more adoption and interest in enterprise. It's early in the cycle of progression there, but we believe that's coming.

In our storage business, we had double-digit demand order growth in our Dell core storage IP and PowerMax, PowerScale, PowerStore and our PowerProtect data domain included in that. And we feel very good about the momentum going into the second half and next year.

At the end of the day, we're in the business of data and compute and storage and networking and memory and those are all things that are in great demand with everything that's going on in the world.

Asiya Merchant - Citigroup Inc - Anayst

And Michael, you've led the company through a lot of change, whether that's cloud computing, obviously, the advent of PCs, the cloud computing. Maybe if you can talk about how you think about AI and -- just how do you think about where Dell operates and how it is just relative to your overall market that you're participating in?

Michael Dell - Dell Technologies Inc - Executive Officer

I do think it's a very significant opportunity, and it's not unlike what happened with the Internet, except that it's happening much faster. And this is all built on the foundation layers that have been in place already.

And as I said earlier, we are kind of in the businesses that are the inputs into AI. And it's a dramatic opportunity for productivity and efficiency inside the existing organizations. It unlocks kind of human intelligence and the upside demand for that is pretty hard to get your head around. Nobody really knows how big it is. But if every person inside an organization can become more productive and more effective, if innovation can be accelerated in every industry and every part of society, that's something pretty amazing.

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The GPT-4o model from OpenAI is probably the most or one of the most powerful models out there. It was trained on 1 petabyte of data. A company like Citibank or others would have hundreds of petabytes of data. We, as Dell will sell our customers this year and last year, about 120,000 petabytes of data. So these algorithms today are the worst they'll ever be.

So if you fast forward 5 years from now, where you've got multimodal AIs and agents, and now you're training and inferencing on all the data in the world, that's going to be a very, very different future, and it's a future that I'm very excited about. It will create a ton of opportunities for our company. And it's one we're aggressively and boldly embracing inside our own business.

In Enterprise, it's early, right? It takes time for customers to organize their data to figure out what are the things that they most care about. What I am seeing is it's an expansion of the TAM for sure. It tends to be driven from the CEO, driven from the business line executives, they're identifying the sort of 1 or 3 key processes that are central to their organization's success, and they're seeing how AI can improve that.

So last night, I had a dinner with about 15 of the largest companies in the New York area. And this is what I'm hearing. There -- the CEO is saying, this is a historic opportunity for us to get better at what we do. If you're an insurance company that's underwriting, can you use data and AI to make your underwriting more effective? Absolutely. They don't want to miss that opportunity. It's driven from the Board. And we think it will be an enormous wave of adoption. And it will ultimately end up like electricity or the Internet where it's just everywhere and everything.

Asiya Merchant - Citigroup Inc - Anayst

Fair enough. So one of the pushbacks that we get from investors were maybe a little bit skeptical here, talk about the primary growth of AI, the inputs that are going into AI being supported by ODMs in Taiwan, maybe similar to what happened with cloud computing. In response to that, if you can talk about Dell's competitive advantage position, is there an opportunity to have your share expand in the AI TAM versus, let's say, the overall other mainstream general purpose infrastructure TAM?

Michael Dell - Dell Technologies Inc - Executive Officer

In Enterprise, that's less of where the ODMs tend to show up. They tend to show up in the hyperscalers. We're in a business where we want to get paid for our engineering value add for our services, for our differentiation. And then we have a financing arm that's also very helpful with a lot of the customers that are building out these enormous systems.

We're careful on the credit side to make sure they could pay us back. But as the opportunity expands from -- we've shipped about $6 billion of our XE9680 and almost $5 billion of that is just in the first half of this year.

And yes, the Tier 2 CSPs are a big part of the demand, but we've seen every quarter more and more enterprise customers in value and a number beginning their adoption cycle. And I think ultimately, that will be the far larger business for us. And the margins and profitability of that are higher. They're more like the CPU server business that we're already in, which, by the way, has had 5 quarters of sequential growth because it's also getting a lift as people we look at their workloads and again, 80% overall growth year-over-year in that whole space is the fastest growth we've had in that and record levels fastest growth since the '90s.

Asiya Merchant - Citigroup Inc - Anayst

Right. Okay. Talking about customer concentration, you talked a little bit about expanding in the Enterprise and Enterprise is starting to come on board. Just if you can talk to us about how your customer composition is today as it relates to AI, how you see that? When do you see that enterprise inflection happening? And even if you can talk a little bit about the enterprise use cases, where do you see traction there? What are these customers coming to you for? Where do you see the greatest benefit of AI, maybe in the Enterprise space?

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Michael Dell - Dell Technologies Inc - Executive Officer

I think because we're early in the cycle here, it is still pretty concentrated. And if we can profitably win business with those concentrated customers, that's what we're doing. And we are winning quite a bit. So the order growth has been substantial, and the pipeline of opportunities is many multiples of the backlog, which is $3.8 billion this last quarter. So tons of opportunity there.

I think it is starting to broaden out. And for Enterprise customers, typically, what they're doing is they're finding a couple of big opportunities in their core processes. So in our internal case, more than a few because we're using it as an opportunity to remake and modernize the company.

But certainly coding assistance, services, in our case, we have this next best action tool that our services people use, and if you're a first-level service person, now all of a sudden, you've got the superpower that makes you with third-level service person and we're able to solve problems faster. So our time to resolution goes down, our customer satisfaction goes up and our cost to serve goes down as well.

There's tons of use cases in sales assistance, in marketing and content, in finance, processes, legal, HR, documentation. And I'd say the larger companies are typically focused on 3 or 4 processes that are right at the center of what they do as a company. And the productivity opportunity here is on the order of 10% to 20%. In some cases, it's 40%, and so that's kind of too big to ignore. And you really cannot find a company that's not wanting to go after this.

Our customers that come and meet with us at our briefing center, we ask them what do you want to talk about? AI is always on the list and it's usually the first and most important thing. Unprompted customers ask us about this all the time. They're very interested, how do you do it? Where do you do it? How do you organize the data? Which tools should we use? What's going on with open source? We're doing a lot with Meta, with the Llama models, but other open source models as well. Some are using closed source model. Some are using small models.

So there's a lot going on here, and they need a lot of help. And ultimately, it drives a ton of infrastructure business for us, not just servers, but also storage like our PowerScale. We're seeing more of that attach in Enterprise, particularly with the improvements we've made to create parallelism with a client-side driver. So we have a new update to our OneFS, which powers PowerScale and networking as well because the plot is how do you connect all these things together. So providing a rack scale solution, we can get paid for that engineering, for the services we provide and helping them deliver a total solution.

Asiya Merchant - Citigroup Inc - Anayst

Yes. When you compare your AI sales, perhaps your enterprises right now versus the more traditional general-purpose infrastructure, is there a difference between the attach rate to the other noncompute-based solutions? Is there a difference in attach rates between the 2?

Michael Dell - Dell Technologies Inc - Executive Officer

In Enterprise, it's a lot closer to the CPU business. In CSPs, it's a little bit different, and we're working to obviously attach as much as we can. Generally, customers in the CSP space are with their second order, the third order, they're buying more from us because they're finding they need more help. And we can solve more of the problems for them. And also, we're getting better engineering solutions that solve that problem. These weren't problems we were focused on 3 years ago. And now this is a new use case. And so we're pivoting our engineering resources to build the stores and networking that customers acquire in these spaces.

Asiya Merchant - Citigroup Inc - Anayst

Fair enough. Margins on top of mind for everyone as it relates to AI. Can you talk to us about the margin trajectory for your AI business? And what should investors be looking for as you guys scale that AI business and maybe as enterprises come on board and you talked about more value-added attach to that AI business?

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Michael Dell - Dell Technologies Inc - Executive Officer

So as it moves to Enterprise, that will be helpful to us. In the second quarter, we had 11% operating income for all of ISG. AI servers are margin rate dilutive, but their operating income dollar accretive. And -- so there are trade-offs there in terms of how much of this we sell, but we're more focused on the dollars.

Another thing that's going on in ISG is we've been able to increase storage margins. We think those can continue to increase, particularly as we move to more of our own core Dell storage IP, and we're able to get value for the engineering and differentiation that we put inside our storage IP. So the direction of travel generally for ISG margins has been positive. We think that will continue.

Asiya Merchant - Citigroup Inc - Anayst

Okay. Great. People are also concerned about all the dollars being spent on AI that it continues to curb the demand or spending on non-AI general purpose. I mean I know some of that was probably through last year as we were going through some digestion. But as you just kind of look ahead, do you think that AI spending would continue to pressure non-AI spending? Or given the server growth that you saw in this particular quarter that you reported, that we've now kind of turned the corner?

Michael Dell - Dell Technologies Inc - Executive Officer

I think with most customers, the AI budget is outside of the IT budget, and it's driven from the CEO. So go back to one of the customers I met with last night, a large insurance company, what's the #1 thing they do. They do underwriting. And can they do that better? What does it work to them they do it a little bit better? That's driven from the CEO, and it's driven from the Board. And the spending that is required for that, that's going to happen.

And we're seeing similar kinds of things with a couple of key projects inside these major companies. Sometimes [coming] for the CEO, sometimes the business line executives, but the IT budget, and we don't see a lot of companies that are saying, well, we're going to do this AI, so we're not going to do that. Maybe that will happen, but the increment of improvement in efficiency here is so dramatic. I think you kind of have to be asleep at the switch to not go after it.

Asiya Merchant - Citigroup Inc - Anayst

Right. A little bit about privacy, security and compliance. And have you seen how perhaps your customers are thinking about public cloud? Has the pendulum continu

e to shift towards public cloud? Are you seeing a little bit more optimization and maybe shifting back to on-prem as it relates to obviously Dell's infrastructure business?

Michael Dell - Dell Technologies Inc - Executive Officer

I think this started some time ago. It's sort of been moving more toward multi-cloud and it kind of started with virtualization and software-defined data center, then public cloud and everything in the public cloud, (inaudible) not everything is in public cloud, too expensive. We need multi-cloud, we have on-prem, we have colo. Now we have FinOps. What's the best place for any given workload? The answer isn't everything in the public cloud.

So customers have sort of figured that out. So they are more mature buyers, and they're going to put the AI where the data is. 83% of their most critical data is still on-prem and colo. And so the AI is going to follow the data.

And there definitely has been some more rationalization of where these workloads belong. I think that helps explain the growth in our traditional server workloads, and you see more and more customers sort of figuring out that, everybody loves a public cloud until they get the bill.

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Asiya Merchant - Citigroup Inc - Anayst

All right. Thinking about VMware spin that has now in the past, how do you think about Dell's ISG offerings now that the spin is behind you?

Michael Dell - Dell Technologies Inc - Executive Officer

Well, 38% revenue growth in ISG, we feel pretty good about the trajectory for ISG, the organic innovation engine in AI, servers and storage and networking and complete rack scale solutions and data management and all the thesis around that. We certainly created a lot of value with our organic business and the VMware spin for those who didn't sell their shares when they were distributed to them as a dividend.

That worked out very well and continues to. And since the inception of our capital return program, now our coverage ratio is 1.4x, we returned $9 billion to shareholders, we've reduced the share count by 62 million shares, and we've committed to continuing to deliver 80% plus of free cash flow to shareholders in the form of share repurchase and dividends.

I don't really see a lot of reason to change that at the moment. And again, I think the organic innovation engine, along with alliances and partnerships, we can continue to grow ISG at a healthy rate.

Asiya Merchant - Citigroup Inc - Anayst

Yes. Anything that investors should look out for? I think I do get some pushback on Dell storage offerings, hyper-converged offerings post the VMware spin and any other partnerships that maybe we should kind of think about that Dell is doing?

Michael Dell - Dell Technologies Inc - Executive Officer

There's a headwind with VxRail, and that comes from Broadcom sort of changing their approach on licensing and you've got to bring your own license and admitted more challenging, let's say. And so we've been creating our own IP with PowerFlex, which is doing very well. There will be customers who continue to want VxRail and we'll provide that.

We also have partnerships with Nutanix and with Red Hat and with Azure on-prem for customers who want those solutions. But mostly, we're emphasizing our own IP with our 3-tier storage platform with PowerStore, with PowerScale, with PowerFlex and continuing to emphasize our own leadership there. We're #1 in storage, largely the #2, #3, #4, all combined together. Again, double-digit order growth in the core, we feel very good about. But there is this sort of run-off of the pass-through revenue that you see, but we're becoming more profitable.

Asiya Merchant - Citigroup Inc - Anayst

Okay. Fair enough. Maybe just talk a little bit about PC, right? Investors are generally kind of skeptical if AI is a demand driver for the PC TAM, maybe on the units, maybe on the revenue side, how do you think about the PC market with respect to AI?

Michael Dell - Dell Technologies Inc - Executive Officer

It's -- the refresh has been delayed for sure, but it's coming, and it's going to be even bigger because it was delayed, right? So first of all, we have a date certain with Windows 10 end of life and we're almost within a 1-year window of that. And as you get in that 1-year window, the enterprise IT people start screwing around and saying, oh, we better do something about this. So we've sold 200 million systems in the last 4 years.

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And there's going to be a big refresh. When you get your new PC inside your company, if it doesn't have AI-enabled, you're going to really wonder what happened, right? Everybody's going to want that. Every piece of software that you're going to use is going to have an AI assistant. You're already starting to see this. And most of those AI cycles are going to run locally on the PC.

And this is just another piece of a long cycle that's been going on for a long time where you want your PC to do more for you than it did before. That's why you replace it. And -- so I think this is going to definitely play to our strength in commercial and enterprise, where we're #1 in revenue, #1 in profit with our services attached and often direct engagement with the customer. And so we're definitely confident that the refresh is coming and PC business has been a great business for us, generated a ton of cash flow over time, and we'll continue to do so.

Asiya Merchant - Citigroup Inc - Anayst

The same (inaudible) demanding or AI infrastructure. Are you seeing them also come and say, Michael, we need this on the PC side as well? Are we at that point where enterprises realize that, okay, the next refresh of PCs should be an AI PC?

Michael Dell - Dell Technologies Inc - Executive Officer

I have not met any customers who have said, we're planning a refresh, but we don't want an AI-enabled PC. It's sort of a question of what does it cost? When does it come? Where is the software? All of it. But the hardware always comes before the software. And so you see the whole industry gearing up, right? The new Qualcomm Snapdragon lead processors, we introduced the largest line of Snapdragon lead systems, 5 of them. AMD's got some great new processors. Intel has -- just yesterday showed the new core Ultra 2 with our Dell XPS 13 preorders, I think, started yesterday. So you get your order.

And all these systems have not just the CPU to GPU, but now they have the NPUs that are capable of running Microsoft CoPilot Plus and all innovations from ServiceNow, at Salesforce and Adobe and anybody else who's writing software that this is going to -- most of it's going to run locally.

Asiya Merchant - Citigroup Inc - Anayst

Talking a little bit about capital allocation, maybe acquisitions, one of your large competitors is doubling down on the networking opportunity with a pretty sizable acquisition. Maybe you can just talk about how do you see Dell's position evolve and more and more of the TAM perhaps that you guys can serve?

Michael Dell - Dell Technologies Inc - Executive Officer

I continue to believe that we can grow organically. It's not that we're opposed to acquisitions, but we just don't see a lot of great opportunities. There may be some [actual] hires. We've done a couple of those on occasion. But we've been very disciplined in our capital allocation strategy, and it's been working well. Just don't see the need or the environment in terms of valuations and regulation, et cetera. So we're very happy to deliver the vast majority of our free cash flow back to shareholders in the form of dividends and share repurchase.

Asiya Merchant - Citigroup Inc - Anayst

Anything on the landscape that you think could result in more consolidation in certain end markets that you guys participate in? Just given how AI is shifting the landscape.

Michael Dell - Dell Technologies Inc - Executive Officer

Well, the sort of long-term trajectory over the last 5 to 10 years, which has been very favorable for Dell Technologies is enterprise and commercial customers, which are the vast majority of our business. They don't want to have more providers. They want to have fewer. And so they want to do more with fewer providers.

And so as we are positioned to provide everything from the edge to the AI systems to their traditional infrastructure, servers and storage to data management and data protection platforms to the PC and as-a-service capabilities around all of that, that's the consolidation play that we're continuing to be on.

Asiya Merchant - Citigroup Inc - Anayst

Okay. Last few minutes here, Michael, maybe you can talk to investors about why they should be doubling up on Dell shares?

Michael Dell - Dell Technologies Inc - Executive Officer

Well, look, I've leading the company for 40 years. We've had a very consistent and reliable strategy of delivering free cash flow and evolving the company and I think the company is incredibly well positioned for this next stage to grow organically and to continue to deliver great returns back to our shareholders. And we're unique. We have a leading position in almost all the businesses that we're in, and there are great tailwinds against those businesses, both in ISG and in CSG.

Asiya Merchant - Citigroup Inc - Anayst

Great. I would like to take this time to thank Michael Dell again. Thank you very much.

Michael Dell - Dell Technologies Inc - Executive Officer

Thank you.

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