



Fireside Chat with Michael Dell | Alliance Bernstein | January 9, 2024

Toni Sacconaghi:

Good morning everyone, and welcome. I'm Toni Sacconaghi, Bernstein's IT Hardware Analyst. And I'm thrilled to have Michael Dell, Founder, and Chairman, and CEO of Dell Technologies join us today for a fireside conversation. Before I begin, I'd just like to read The Safe Harbor, a reading from Dell, Dell Technology statements that relate 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.

Now, this is an open Q&A in the sense that investors can ask and vote on questions via Pigeonhole. You should have received those links when you registered for this call. And that would be the best way to vote on questions and ask questions for Michael. So without further ado, Michael, welcome, Happy New Year, and thanks very much for joining us today.

Michael Dell:

Thank you, Toni. Great to be with you and all the investors that have joined us today.

Toni Sacconaghi:

Well, why don't we just plunge right into it. And the topic in technology for I guess the last 14 months since the launch of ChatGPT has been AI. And so maybe, broadly you've been in the technology industry for 40 plus years, maybe you can talk about just broadly, how do you see AI impacting the economy and companies over the next 5 to 10 years?

Michael Dell:

I am quite optimistic about the impact here. I think it is a big unlock of productivity and will be a catalyst to overall economic expansion and growth. And I think when we look back on this decade, it will have been a major factor in economic expansion. And of course from a technology industry perspective, it's in a sense a big unlock of all the data that was accumulating and rapidly growing, and a TAM expansion because it effectively gives technology a bigger role in the economy than it already had. And so yeah, I'm quite optimistic about the opportunity.

Certainly we see a big TAM growing for hardware and services, which is the place that we tend to play in. And as I talk to customers of all sizes, it's really interesting. You have a customer round table at one of our Dell tech forums with customers of all varieties, and this is the number one topic by far. It is certainly the number one topic with the largest customers as well. And so there's a great interest and

appetite, and customers need a lot of help in doing this, and we're really just the beginning of helping customers make this happen.

Toni Sacconaghi:

Great. So Michael, maybe I could just follow up on a couple of things that you mentioned. One is how do we think about... You talked about productivity enhancement. Have you thought through, or what are you hearing from customers in terms of the most promising applications for AI? And are they incremental to existing productivity? When we talk with CIOs, some say, "Look, we've been doing AI in some form for five plus years, RPA, et cetera. Look at how automated customer service has been relative to 10 years ago." So when you think about the principal opportunities in AI, what are they, and are they incremental or are they completely new?

Michael Dell:

It's a great question, and you're absolutely right, machine learning has been around for a while. There was a big machine learning wave that started around 2010, and a lot of companies have been using propensity models and prediction models in their systems. One of the interesting things about this generative AI wave is that it's put increasing attention on the technologies that have already been available that maybe organizations haven't been using. But the areas where I've seen the most interest and application are in anything having to do with customer operations, content creation and management, software development and sales. And as to the question of is it incremental or not, I think it depends on the perspective of the company. And what I'm seeing is there are companies who say, "Hey, the budget's the budget, we're not changing it." And then are other companies are saying, "Well, wait a second, we can get a 20 or 30% productivity improvement here, whatever the budget was, forget about that. Now we're going to go do this because it's too big of an opportunity to let it go by." And everyone will fall somewhere in between those. But as more and more of the reality sets in that this is a true competitive advantage and game changer, assuming that's the case, right, and I'll acknowledge that there's definitely some hype in this area. I think it is a change or die kind of moment I think for many organizations and industries. And as a result, I tend to see it as much more of a TAM expansion.

Toni Sacconaghi:

Great. Well, along those lines, one of the things that I struggle with as an analyst trying to quantify impacts of things, is just how do we think of the potential productivity impact from AI relative to other productivity waves we've had over the last 40 years? I mean, you were at the forefront of the PC revolution. When I had my first job, and we're about the same age... Actually when I was a summer intern in college, I had think 128 kilobyte Mac. And I used to have to bring it home to run the software application all night because it took so long. And that was my productivity tool. And I had a rotary dial phone, it was landline. And you just think of the PC revolution, and then you think of the internet revolution, and you think about digital transformation. It feels like we've had these kind of successive waves of productivity.

And tech spending as a percent of the global economy has increased, certainly increased as a percent of the market capitalization, which is a reflection of that. But is this something that's necessarily going to be more productivity enhancing than prior waves? If companies spent 2 to 4% of their budgets on IT spend in the past, is that number going to be higher because of AI? And how do we think about that in the context of all the productivity that technology has brought over your lifetime? And is this something that's truly bigger and more significant than some of those other waves?

Michael Dell:

I think it's at least as significant as the prior waves. I think it'll vary by industry. But to your point, if you took any specific organization and you said, oh, let's say they didn't adopt the PC or the internet, or [inaudible 00:08:53], they wouldn't probably be around now. And so there is a speed advantage that organizations will have in terms of adopting maybe ahead of others. But these things do get normalized out. I do take the argument that this will overall make the pie bigger because it's effectively going to amplify human capability, and creativity, and productivity, and opportunity, and I think can have tremendous positive impact on healthcare and education.

And again, when I talk to customers, the CEOs and the board members have kind of figured out that this is a big deal. And the initiatives inside the big companies to make use of this are driven at that level. And that's somewhat different than the prior waves. That might be somewhat of a generational change, but it could also be that the data is showing some fairly significant magnitude, right? People are talking about 15% productivity gains, 30% productivity gains, for example, in code development. If those numbers are anywhere near correct, you would be derelict in your responsibilities as a office and executive of a company if you weren't figuring out how to go get that.

Toni Sacconaghi:

Got it. Understood. Now, you mentioned about the intelligence that's going to occur. Philosophically, do you, and this is maybe a little off topic, but nevertheless of interest, do you worry about AGI? And do you even think and contemplate about a timeframe for when that might occur?

Michael Dell:

I worry about it a little bit, but not too much. For as long as there's been technology, humans have worried about bad things that could happen with it. And we've told ourselves stories for eons about horrible things that could happen with whatever new unknown force in the world there is. And we actually have a great mechanism as humans to worry about things and then create counter actions so that the bad things don't actually occur. And we can think of a gazillion examples of that. Even since we're both about the same age, you remember the ozone layer and all. There are all sorts of horrible things that were going to happen. It didn't happen because humans took countermeasures. And any tool, whether it's fire, or the wheel, or AI, can be used for good things or bad things. These tools don't wake up in the morning and say, "I'm going to be good today or bad today." It's what we ask it to do. And we have to make sure that it reflects our humanity. And that's our job, is to make sure that it doesn't go crazy and we don't turn the world into a bunch of paper clips. If you're familiar with the... There was a book about that.

Toni Sacconaghi:

Yes. One of the things that our tech team at Bernstein has been thinking a lot about is, or wondering about is just how big the infrastructure build out right now is happening for AI. And we look at Nvidia shipments and consensus numbers point to AI servers being, in 2025 being like \$120 billion, which is as big as the traditional general purpose server market today. And it's a five-fold increase in the server market, AI server market in like three years. We went through the entire internet and the server market didn't really grow. It was the biggest build out in infrastructure and data history, and the server market was \$50 to \$70 billion a year for 15 years.

And so I guess my question is, do you worry that we may have some temporary overbuild in capacity that will be absorbed, no doubt over time, given the size of AI and given its capabilities. But frankly, the

magnitude of that server build out relative to other metrics that I mentioned looks very big. Do you have any of that concern, or do you think it's just a straight line from here?

Michael Dell:

Well to think about your question, what would you do if you had concerns? So I think if you look at where we're investing our capital, we're being pretty disciplined here. I think there's no question that there's a big build out. Whenever you have cycles like this, the opportunity for excesses to occur is absolutely there. Nobody quite knows what the demand supply balance really

Michael Dell:

... really looks like, particularly when you have a condition like this. I heard estimates from last year that said that the demand, actual demand was five times the supply. Who knows? I mean, maybe that's right. Maybe it's four times. Maybe it was 1.2 times. I mean, but there certainly is aggressive build out. And look, I think if you talk to customers, a significant majority of them believe that AI is going to help them be more competitive, change the rules of competition, help their cost structure, disrupt their industry, help them with product delivery and differentiation. And we're at the beginning of that. And we're also starting to see the competitive landscape change as you have diversity in the hardware and software layers also as we go from just training to training and inference. And so again, I think it's a big opportunity. There certainly could be excesses formed and in the demand signal in one place or another, we try to carefully insulate ourselves from those.

Toni Sacconaghi:

What are you seeing in terms of AI business momentum? Is it just continue to go straight up to the right?

Michael Dell:

It's continued to be very strong. Customer demand nearly doubled quarter on quarter for us. And the AI optimized backlog roughly doubled to about \$1.6 billion at the end of our third quarter. Sales pipeline grew substantially roughly by three times quarter on quarter. And having met with a large number of those customers, yeah, they're real use cases behind them. It's broadening out from the AI as a service, GPU as a service, companies into financial services, government, education, medical. And I mean, anywhere where there's a prompt in a system is the opportunity for these kinds of technologies to improve the experience in a meaningful way.

And of course we have a broad portfolio here and we're just starting to see some demand from the PC or workstation side. It starts with the high-end workstations where we have leading share. But some more advanced customers are running these models on their own PC. And of course there's been a lot of discussion about this at CES in the last few days. There will be a new wave of AI-enabled PCs that have the capability to run these models just like there'll be new phones that can run these models. And then you've got all the inference activity that's going to occur. Once you've trained your model, you got to put the data through it so you get a better outcome. You make a prediction, you have something occur more effectively. That's going to require an enormous amount of computing power.

Toni Sacconaghi:

And how are you thinking about inferencing? Do you feel that inferencing may require more infrastructure than training when it's all said and done? Or-

Michael Dell:

No question. No question at all. So I mean, just think about any activity and it's obvious that the inferencing of that activity is way greater in computing requirement than training over time. Let's take an example. Let's say you have some vehicle, whether it goes on the ground or goes in the air, whatever. It's a vehicle of some kind. Well, it requires a lot of computing power to train it. But then the actual movement of the vehicle and the flying of the vehicle, that happens every single day, a gazillion times a day, every time there's a vehicle. So you've got to take the data and put it through the model to get the outcome to know what to do.

The same would be true for industrial robots or any activity. So I think inferencing, ultimately, it's going to be far bigger than training. And of course inferencing will happen in the physical world, in the real world. It won't happen in a big training data center somewhere. It'll be embedded in the device. If you've got an automobile and it's going down the highway and it has some capability to do something different than an automobile from the past, it's inferencing and the capability is in the automobile. It's not going over some 60 network to get the answer to decide what to do while you're driving at 80 miles an hour.

Toni Sacconaghi:

But I mean, if we think about the compute intensity more broadly, I mean, is there not the possibility that the algorithms will be radically simplified, that model sizes will actually over time actually get smaller? And so the inferencing is being done much more locally and in much smaller models that the compute infrastructure doesn't necessarily follow the... Is proportional number of queries, whether it be on the inference side or on the training side, but that you have fundamentally different changes to the compute algorithm as it is today. And then also the inferencing model. And arguably that's what we've seen historically in the form of Moore's law and virtualization. And that's what's kept the lid historically on server spending, is the world got a lot smarter in either designing those products or designing the algorithms necessary for it. Is that not also inevitable here?

Michael Dell:

Yeah, no doubt. I mean, there will be enormous innovation in the models themselves. And you're already seeing this with the proliferation of open source. And so you'll see models of all shapes and sizes. You'll see refined models, distilled models. But ultimately, if you calculate the amount of computing power required to process all the data in real time, it's going to be more than the training. It just is, unless you don't actually do much with it. But I mean, think about Tesla for example. How many cars do they have? Every single car is doing inference every time it moves around. That's a lot of computing power. And if let's say in, I don't know, 10 years, all the car companies have some capability approximating whatever, the amount of computing power required to do that is enormous.

Toni Sacconaghi:

Last question on AI and then we'll talk more specifically about Dell. Do you think that AI, or if you had to put a percentage, how much AI, and if you want to split it out, training and inference will be done on premise versus the cloud? Our CIO surveys are saying the vast majority believe that it will be done in the cloud. I think the vast majority of Dell's AI infrastructure sales today have been to tier 2 cloud vendors. How do you think about that? And if you were to hazard a guess, what might percentages look like at end state and why?

Michael Dell:

Yeah. I mean, look, I think as people get into actually doing this, what they're finding is that it's very hard to move all your data to the AI. And just like in more traditional infrastructure, there's a hybrid approach. And vast majority of customers also prefer a hybrid approach. And so most companies already have on-prem colo and public clouds. And again, I think with the innovation that you're seeing with retrieval augmented generation and the desire to keep proprietary data inside an organization, I don't think it's likely that all this data is going to move outside of companies and into at least a public cloud environment. Certainly some of it will, but you'll also have... I mean, we have a lot of customers now that have innovated with us in a model where they keep their data in a colo that is one hop away from all the public clouds. And they can access all these various services that they want without having to replicate their data many, many different times. And again, I would argue that it's more likely that you'll bring AI to your data than data to your AI.

Toni Sacconaghi:

And on just from a profitability perspective, in terms of Dell itself, the company has commented that right now AI servers are not as profitable as traditional servers. And is that a function of the customer? Meaning these are cloud-like customers and Dell's experience in selling to tier 1 cloud vendors was, it was very difficult to make money there. No support. Contracts that were often considered loss-leaders by OEMs or ODMs who are taking them on. So how do we think about the profitability for specifically AI servers today? And if it is lower that, is it because it's largely a tier 2 cloud customer or is there something structural about an AI server that is intrinsically lower? Or do you actually think, hey, as this moves more towards on-premise, our margin should be the same? So maybe you can just unpack why the margins are lower today. Is that a cloud versus an on-prem consideration or are there other factors at play?

Michael Dell:

So a lot of pieces there. Margin percent is going up, but currently the margin percent is lower than the average for servers. But it's definitely accretive to margin dollars. And we're, I think, doing a better job of adding more services and storage and networking into that solution. And as it goes more toward enterprise, we will be able to capture more value there. But a lot of the early customers, I'd say there's a lot of buying power and a lot of the cost is concentrated with one particular supplier that you mentioned earlier. And so it hasn't been at the same level as traditional servers, but we're finding ways to improve it.

Toni Sacconaghi:

And just on the support side, Michael, support historically support service has been a large part of the economics of selling a server and attach rates in enterprises are very high. What is that like with an AI server today in terms of support attach to a tier 2 cloud provider? And is that a contributing factor to the profitability delta as well?

Michael Dell:

It is, and we're also starting to see some improvement there as these companies get into the running of these things over time. And the way we like to say it is, you're not going to buy

Michael Dell:

... a machine that is critical to your business without the service that goes with it. And so, I think we'll be able to improve that and the trends are promising.

Toni Sacconaghi:

Okay. If we think about Dell more broadly now, or more specifically I should say, how do we think about the right industry growth rate and margin level, again, industry, for PCs over the next five years?

Michael Dell:

Yeah. So, for PCs, I'll say we've been somewhat surprised at how elongated this down cycle has been. And look, the PC has generally been a defined- life appliance, where at some point, the new one gets that much better that you're just compelled to replace it. And as we keep stacking up new capabilities and the install base gets older, it's not a question of if people will upgrade or replace, it's a question of when and with what. We also keep adding with peripherals and services and additional categories to the TAM.

As we talked about, we expect revenue growth kind of in the low single digits. And as we laid out at our shareholders meeting back in October, we expect an operating income framework of 5% to 7%. We've been a little better than that in many cases, but that's kind of the framework that we laid out. There is a big TAM expansion for us in peripherals, and we've done a great job in displays and docking stations. Organically, we've been building a very nice business with all the other accessories, keyboards, mice, headsets, cameras, and of course our services attach and much more emphasis on commercial enterprise.

We have the best franchise in this business in terms of share of profits and share of revenue. And so, the refresh is coming. Nobody knows exactly when, but we'll be well-positioned.

Toni Sacconaghi:

Yeah, I mean, maybe I can push you a little bit, Michael. It feels like there's almost a disconnect between low single-digit revenue growth for Dell, and you're kind of saying, "Look, there's a refresh coming." I think you believe you're a share gainer. You talked about expanding your adjacent businesses and peripherals. And so, to me, it either feels like, well, either you're not gaining share, or the market's not going to grow, or Dell's going to do better than low single digits. But the calculus of what you laid out doesn't really end up at low single digits in my mind, unless I'm missing something, unless you actually believe the market could be worse, or there's going to be significant ASP pressure, or maybe that's just the floor and you're hoping to do better. But if I had listened to your conversation and then said, "Okay. Well, what's the implied growth rate for Dell?" I would not have said, "Low single digits." So, maybe you can square the disconnect.

Michael Dell:

Look, I think you've been following this long enough to know that we're an under-promise and over-deliver type of company, and so I'm not going to change our framework. And we definitely have a history of gaining share. We've gained 10 points of commercial share over the last 10 years, but we don't gain share every quarter, and it does ebb and flow. If the market does better, I think we'll probably do better as well.

Toni Sacconaghi:

Got it. Shifting over to the enterprise business, Michael, it does feel that storage margins are... You don't report them explicitly, but you can kind of impute them, you made comments about sort of where server margins are. And it does feel like storage margins are quite a bit lower than EMC's history and some storage pure-play peers. Why is that and how might this change over time, and is it a priority for you?

Michael Dell:

Well, let me just say, yep, we agree. This is an opportunity, it's a priority. They are lower than they should be, particularly given that we have a number one position in so many areas. We have been taking a number of steps to simplify the platform. But look, if you listen to Arthur Lewis, we're very focused on improving overall margins here, and I think we've got an opportunity there. We haven't delivered on that to our aspirations, but it is clearly an opportunity that we're focused on with a more simplified product platform with more software-defined capability, like our PowerFlex software-defined infrastructure solution, which has done quite well in the last several quarters. And look, I think the keys are going to be growing share, better monetizing our software assets while continuing to simplify the portfolio.

Toni Sacconaghi:

Is storage the biggest margin improvement opportunity at Dell, or is it AI servers, or if you think about what could move the needle most in margins, is it specifically the storage business or is it broader overhead and further cost reduction, which recently you've done a nice job on? How do you think about the biggest levers for margin improvement?

Michael Dell:

Yeah, there's probably a factor of what is the market growth, but all the ones you mentioned have got a lot of focus and we have, I think, done a nice job with our operational cost management and that's going to be an important part of our ability to generate strong free cash flow and earnings for the next five years and beyond.

Toni Sacconaghi:

Okay. I'm going to turn to some of the pigeonhole questions, and again, I encourage people to vote or add to existing questions, so I'm going to start with the ones that are most voted on. So, Michael, what's the biggest growth opportunity for Dell that is underappreciated by the investment community?

Michael Dell:

I would say probably the fact that we have had an incredibly consistent long-term track record of being agile and generating strong cash flow. And that's not only a combination of our portfolio capabilities, but our culture and the internal capabilities that we've built. And over the past five years, we've delivered more than 36 billion in adjusted free cash flow. Q3, it was roughly a billion, and roughly 6 billion in capital return in the last seven quarters. That's more than 90% of adjusted free cash flow. So, if you dissect the culture and the set of businesses that we have and the way we run the place, this is just a cash flow machine that knows how to adjust and make changes as required to continue to do that, and I think will continue to do so. I think it's also reflected in our capital return and dividend policy now fully ensconced and understood. And yeah, we'll continue doing it.

Toni Sacconaghi:

So, I think that's a good characterization of elements of Dell, the security that people under appreciate. If you were to say from a market growth opportunity, what do you think is the biggest opportunity that Dell has that is under appreciated?

Michael Dell:

Yeah, I mean a lot of discussion about AI on this session today. I think edge is a significant opportunity, telco infrastructure, open telco infrastructure, those are two new areas that we've been growing and investing in that are relatively new domains for us, and I don't know how much the market knows or understands about those. We'll certainly continue to highlight them and talk about them in our investor communications.

Toni Sacconaghi:

I mean, clearly the market believes, and you've shown that the AI business could be a multi-billion dollar business. Can edge and telco add five plus billion in growth over the next five years? Are those opportunities like significant scale? Obviously, they're quite small right now, but can you dimension them in any way in terms of how big they could be for Dell?

Michael Dell:

Well, put them together and they easily, I think, fit in that kind of category. And to be clear, we already have businesses in those areas, but if you think about what's going on in the world, we just talked about AI in the form of inference. We have a fabulous business inside Dell that we refer to as our OEM business, and what this essentially means is our machine is the brain of a bigger machine that is made by Emerson, or Motorola Solutions, or pick your company. We got 5,000 customers and it's an enormous business, and it's sort of totally uncorrelated with the traditional IT definition and it's growing very nicely. And we're continuing to build out more and more capability in edge. Telco is interesting because as you move to a sort of disaggregated virtualized, software-defined telco networks, there'll be more discussion about this at the Mobile World Congress coming up next month, all that infrastructure is sort of heading in our direction and we've been well-positioned for that. Put those two together, yeah, those are nice opportunities that are many billions of dollars in a multi-year timeframe.

Toni Sacconaghi:

Okay, great. Another highly-voted question on Pigeonhole is what are the odds of Dell doing a large deal, greater than 8 billion, in the next five years?

Michael Dell:

Not very high. I think we've been pretty clear about this, but if you think about where the company is, we've talked about our return of capital strategy. I mean, if you sort of think about big deals that you could do, not that one would have a strategy to, "Let's go look for big deals," right? It's generally the wrong way to do it. First of all, a lot of things aren't practical from a regulatory standpoint. A lot of things aren't practical from a valuation standpoint, and we're just not focused and don't see an opportunity

Michael Dell:

... Be to use our capital effectively in that way. And so that's kind of why we've laid out our return to capital strategy the way we have. You could see us do small acqui-hires and tuck ins, like you've seen various small things, but I would not expect a large acquisition anytime in the next several years.

Toni Sacconaghi:

And Michael, Dell was more acquisitive in kind of the 2010s era, bought Pro and Services, various software assets, had VMware. A lot of those were sold. Is Dell today... So you went from arguably a more comprehensive solutions provider, software services and hardware, to something that's arguably less in terms of breadth. Do you feel you have the right portfolio today? And was that in hindsight, was that for a right at the right time? Was it a mistake given that you divested it? But arguably, the trajectory felt different in 2010 to '15 where Dell was going in terms of its capital use, in terms of moving into software and services. So I don't know if you can reflect on that, but more importantly, is the portfolio where it needs to be today?

Michael Dell:

Well, so feel very comfortable with where the portfolio is today. If I go back to sort of 2009, '10, '11, '12, I think we made some mistakes. We bought some businesses that weren't leading businesses. They were difficult in that they weren't close adjacencies. And some of them were more tools and platforms. That sort of informed something much bigger that came along a little bit later. Everybody knows that EMC VMware, that all has worked out quite well. And yeah, I feel great about the portfolio. There you go.

Toni Sacconaghi:

Okay. You talked a lot about capital allocation and Dell's been very explicit about that and the targets.

Michael Dell:

Yeah, and let me say a little bit more. So today, what you have in Dell is you've got a business that has a very broad portfolio of number one positions with a unique operating model. And while we did divest the former Pro systems, we have a fabulous services business that is actually very profitable. And it doesn't do everything that the system integrators do. That's totally fine. We have fantastic partnerships with the SIs. One of the reasons we divested it was because EMC had fantastic relationships with the SIs. And so we've continued those and we don't really want to compete with them and didn't really find much revenue synergies anyway in trying to do that ourselves.

On the software side, obviously we're continuing to invest in and expand our own software IP, like software-defined infrastructure with PowerFlex and data protection. And again, a set of businesses with number one positions.

Toni Sacconaghi:

Now Michael, you talked a lot about the capital return, and it's substantial and you also have cash, which the company has acknowledged. Gross cash is about \$10 billion. You only need about four or five to run the business. Mathematically, the capital return plus the excess cash could effectively buy out Dell again and make it go private. Is that a possibility?

Michael Dell:

That's not our plan at all. And let me start by giving you 14.1 million reasons. So if you were paying attention to SEC filings, you'll see that I transferred about 14 million shares of Dell stock to charitable entities last year. And I think the significant majority of that stock is now sold free floating in the market, etc. And I would expect that will continue. This is something I signaled at our October meeting. And to be very clear, we have no plans to go private. We are planning to stay public, and we're going to use our capital to repurchase shares and provide dividends. And one should expect that I will continue to distribute shares to charitable entities and to sort of fund those activities.

Toni Sacconaghi:

And Michael, how about Silver Lake? Obviously still have large share in Dell. Why should investors not worry about sales of their shares and how should they think about the likely timeframe for exit and why that couldn't pressure the shares?

Michael Dell:

I can't speak for them, but just observing them, they've been super thoughtful about this. They did transfer... They used a fund to fund transfer to roll their Dell investment into three newer funds. And they're looking to put capital to work. It's kind of hard to find an investment as great as Dell. And this is what Egon Durban will tell you at the Silver Lake annual meeting. And I think you got to listen to what he's saying.

Having said that, they have roughly 90 million shares now. They started with 137 million shares. So they have very thoughtfully distributed about a third of their shares to their LPs. I'll also tell you that from time to time we've gone to them and say, "Hey, can we buy some of your shares?" They don't want to sell them to us. So there you go. But I think they've been very thoughtful. They're long-term shareholders, and we don't have any other information.

Toni Sacconaghi:

Speaking of maybe not having other information but it's topical, S&P inclusion for Dell, I think since April of last year you qualify to be included. How do you think about that and its likelihood?

Michael Dell:

Well, this is a better question for the S&P selection committee than for me. We've done our part, and I think we just wait our turn. We meet all the criteria as far as we understand them and we'll just keep being a great company and generating strong cash flow and earnings and eventually our number will come up. That's kind of the way it works.

Toni Sacconaghi:

Okay. I'll ask a couple more just from the pigeonhole and then we'll wrap the call. Understand the AI [inaudible 00:53:45] from two cloud folks. I'm just reading the question, not quite sure that's a hundred percent accurate, but nevertheless, high concentration of cloud customers are enterprises taking a wait and see approach to on-prem ai. What needs to happen for larger on-prem AI enterprise investment?

Michael Dell:

I don't think they're necessarily taking a wait and see approach. I think they're just at the beginning of it and they're kind of developing the architecture, a ton of proof of concepts going on. Some deployments

are starting. But as I mentioned earlier, as customers get into the whole data flow and system architecture of using their existing data with generative AI models and retrieval augmented generation and all the things you need to do to build a whole pipeline to successfully do this, it's going to require a lot of infrastructure. And we're starting to see that.

Toni Sacconaghi:

Okay. Seeing if we got to everything. I think we largely did. Michael, maybe I can just... Or we can just finish on are there important things that we didn't talk about on this call that you want to highlight? And is there anything more that you want to say? You talked a lot about the underappreciation of cashflow of Dell. Is there anything more you want to talk about as Dell is an investment? So two separate things, anything fundamentally we can address that you want to underscore, and then B, anything else you want to highlight about Dell as an investment?

Michael Dell:

No, I think we covered it, Toni. I think more investors are starting to understand what we have in this business. And again, very long-term track record of being agile and figuring out how to grow cashflow and earnings successfully, number one franchises in a broad set of infrastructure areas, and a very disciplined leadership team. And I think tremendous opportunities for us with all that's going on with the incredible growth in data, AI, Edge, etc. So very excited about the opportunities ahead.

Toni Sacconaghi:

Okay, Michael, I'm sorry, I have one minute and I can't resist a follow-up. You did talk about the leadership team. How do we think about succession for you and Jeff? You did bring someone in from the outside as a co-CEO. They're no longer at the company. Jeff and you have been leading the company for a long time. How do we think about your timeframes for transitioning leadership of the company and how do we think about succession?

Michael Dell:

Yeah. Well, so I think I've got a pretty long runway still to go. And look, we do have a strong internal bench. You mentioned Jeff has been here 37 years, I think. Yvonne, our CFO, over 25 years. Sam, who leads our client business, 25 years. Arthur, 20 years including his start at Alienware, interestingly enough. A very experienced leadership team and lots of depth inside the organization. And we do spend a fair bit of time continuing to develop our team. And if one looks, we've been quite successful in continuing to create new leaders from within inside the business. I have every expectation we'll be able to continue to do that.

Toni Sacconaghi:

Right. Well Michael, thanks so much for your time today. On behalf of Bernstein Investors, we really appreciate it. We wish you all the best in the new year. And thanks again for doing this today.

Michael Dell:

Sure thing. Great to be with you, Toni. Take care.