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Erik Woodring: Good afternoon, everyone. Thank you for joining us. My name is Erik Woodring, IT Hardware Analyst here at Morgan Stanley.

I'm delighted to have Chuck Whitten, co-COO of Dell Technologies, here with us today.

Let me just start – before we begin the discussion, I want to inform you that this discussion may refer to non-GAAP results, including non-GAAP revenue, non-GAAP cash flow from operations, and non-GAAP earnings per share. For a reconciliation to the most directly comparable GAAP measure, please consult the slides labeled "Supplemental Non-GAAP Measures" in the "Performance Review" available on the Fiscal 2022 Q4 results page, on investors.delltechnologies.com.

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Chuck Whitten: Well done, Erik.

Erik Woodring: That's what I was most worried about, honestly.

Chuck Whitten: That was the fastest I've heard it done. Thank you.

Erik Woodring: And then just in terms of my own disclosures, please see the Morgan Stanley research disclosure website, at www.morganstanley.com/researchdisclosures. If you have any other questions, reach out to your Morgan Stanley (inaudible).

Chuck Whitten: And we're out of time.

Erik Woodring: All right. Now that we did that, Chuck, thank you very much for joining us.

Chuck Whitten: Thank you for having us. We're grateful to be here and talk about our company.

Erik Woodring: In person, as well.

Chuck Whitten: In person.

Erik Woodring: So, let's start from the top. Last September, you laid out a strategy and a long-term vision for value creation at Dell. Can you just remind the audience kind of the most important

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parts of the strategy and the framework and then maybe give us an update on how Dell is tracking against its goals?

Chuck Whitten: Sure. Well, our key message in September was we are uniquely positioned in the data and multicloud area with a set of durable competitive advantages and leadership positions in our markets that give us the opportunity to drive sustained long-term growth. And we have the financial flexibility coming off our recent transactions to be able to invest in them.

And there were really three parts to our argument. The first is our core business sits in large, stable, and growing markets where we have established leadership positions. So, our leadership positions: we're #1 in client revenue, we're #1 in x86 servers, we're #1 in external storage, we're #1 in hyperconverged infrastructure, we're #1 in data protection. And so, $670 billion and leadership positions mean we have enormous room to grow just inside our core business.

And our second argument was adjacent to those businesses are a series of very attractive growth opportunities for us, growth opportunities that build off the capabilities that we've built inside our core business. So, that's places like the edge or telco or the application of APEX, our as-a-Service branded set of offerings to our core business, or those adjacent markets that expand our TAM.

And then our third pillar of that argument was we're committed to long-term shareholder value. We have the ability now to drive a balanced capital allocation framework. We have a track record of delivering in any environment. And we're committed to invest for sort of sustained accretive growth across our businesses.

Look, how are we doing against that framework? I think FY '22 was a really good example of proof points against that argument. If I step back, it was an historic year for us, overall. We crossed the $100 billion mark as a company: $101.2 billion. That's up 17% year over year. We delivered $6.22 of EPS; that's up 26% – excuse me, 27% – growing faster than our revenue. We delivered $7.1 billion in free cash flow. So, financially, just an exceptional and historic year.

And I think our Q4 results show the stability inside our underlying CSG and ISG markets. So, our CSG business, $17.3 billion, grew 26% on a P&L basis, 21% on a demand basis. Importantly, that's a business where we've continued to gain share. So, we've gained share in 32 of the last 36 quarters.

Our ISG business FY '22 was an inflection year. We returned that business to growth. It was $9.2 billion. It grew 3% on a P&L basis, but importantly, in Q4 grew 17% on a demand basis. So, demand well ahead of revenue.

And our server business delivered its fifth consecutive quarter of growth. Our storage business delivered its third consecutive quarter of growth. And as we said, FY '22 in our storage business was the fastest growth year since the EMC acquisition.

So, our core markets are healthy, and our core businesses are doing quite well.

And then on shareholder value, look, we continue to execute against the framework that we described in September. We simplified the capital structure. We finished the VMware transactions. Completed the sale of Boomi. We delevered: we paid down $16.5 billion of debt in FY '22. And we started to execute against that capital return framework that we described, announcing a $0.33 per-share dividend in Q1. And as of earnings, we bought back $900 million of the $5 billion that we've been authorized by the board in terms of share repurchase.

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So, look, net, we laid out a strategic framework, and we're starting to execute against it. And I think FY '22 and, in particular, Q4 was a really great sort of example of it.

Erik Woodring: Great. Perfect. So, let's dive into some of those headline topics, first on the CSG business. If you go back to the 2010-2011 period, annual PC shipments peaked around 630 million units, then went through seven consecutive years of annual declines. Today, we're at around 340 million annual shipments, coming off the two strongest years in over a decade for the PC market.

So, what's the argument for annual PC shipments kind of remaining at this level versus declining similar to kind of the early 2010s, early to mid-2010s?

Chuck Whitten: Sure. Look, I think what's different now is the usage model of the PC has fundamentally shifted. And so, if I just stay in the commercial business, we're asking the PC now to do way more than it's ever been asked to do. So, it's always been the most important productivity device in business, but it's now our telephony, it's now our video conferencing. It's sort of absorbing the desk around it.

And so, in a "do anything from anywhere," "hybrid work," "shop from anywhere" world, we're asking the PC to do more. And so, that's what we mean when we say the PC is sort of fundamentally reset to a new level.

I think the reason I zero in on the commercial market is that's another important point, which is not all PC units are created equal. So, our business is focused on the commercial segment, the high end of consumer, and gaming. And over time, if you trace the arc from sort of the 260 million to 310 million in 2020 to the over 350 million units last year, the commercial PC markets and the premium consumer segments and gaming are the most stable and durable of those markets.

And so, just go back and dissect IDC from Calendar Year '16 to '19. The core commercial market grew 3%. You add in 2020 and '21 to Calendar Year '16 to 2021, it grew 5%. That's a very durable, durable market. And so, I think that's part of the logic and why we have conviction on the sort of stability of the underlying PC market.

The final point I'd make from Dell's perspective is, look, we're a natural share gainer in these markets. We've gained 32 out of the last 36 quarters, as I said. In the commercial business over the last five years, we've gained 470 basis points of share. So, could the PC market shrink this year? Sure, but our argument would be it's more likely to manifest itself in the consumer portions of the market or Chrome. And whether the commercial market is flat, slightly up, slightly down, we're anticipating CSG growth for our business.

Erik Woodring: Perfect. And then maybe shifting over to ISG, as digital transformation and a push to hybrid cloud adoption drives infrastructure spending, how are you, Dell, uniquely positioned to kind of capture share in both servers and the storage market?

Chuck Whitten: Well, I think our infrastructure business is a story of really good market tailwinds right now and also leadership positions.

And so, the market tailwinds – I mean, this group knows well – pervasive digital transformation drives the tailwind in our infrastructure business. You go talk to our core commercial customers. You're born a technology company, you have a technology-led strategy or you end up being obsolete. And that, in and of itself, drives demand for our storage server, our infrastructure products.

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But I think underneath that, of course, the currency in that digital reinvention is data. And with the explosion of data, data in the core data center, cloud, edge, it is an exceptional position to be the leader in infrastructure.

And so, those are the macro tailwinds that are driving our business.

The leadership positions are what matter for our ability to sort of win and grow. And so, if I stay on our storage business, look, we're #1 in every storage category that exists. We're #1 in high-end, mid-range, entry. We're #1 in unstructured. We're #1 in object. We're #1 in all-flash. We're #1 in hyperconverged infrastructure and data protection. So, that means we are in every architectural discussion that matters with customers.

And you see that momentum in our results. As I said, our storage business in Q4 grew in the high single digits, its third consecutive quarter of growth. But the texture underneath that was also important. We saw growth across our portfolio. We saw it in the high end. We grew our unstructured business 25%. We grew our hyperconverged infrastructure business 8%; that was on the back of a very difficult compare from the prior year.

And importantly, in the mid-range, which is the largest portion of the market and where we have the most share to go gain, we continue to drive growth. So, our FY '22 growth in the mid-range was double digits. Our marquee product, PowerStore, we called out in Q4, grew 50% year over year, 34% sequentially. It's gaining new customers. We're seeing repeat customers.

So, tailwinds and leadership inside of storage.

And you can say the same thing about our server business. We're #1 in x86 revenue. We delivered our fifth consecutive quarter for growth, as I said. And if you look at our business over the last five years, we've gained roughly 560 basis points of share in the commercial business. So, in an environment where infrastructure spending across the industry is growing, we're well positioned given our portfolio.

Erik Woodring: So, earlier, you mentioned – especially for ISG but, in some cases, also for CSG – that demand is outstripping supply. And so, lead times are elevated in some ways for both businesses through the first half of the year. What of this is component shortages? What of this is logistics related? When do you expect some of these constraints to ease? Will it vary from quarter to quarter? Is it more linear? Just maybe help us unpackage the impact of the supply chain today.

Chuck Whitten: I would say, look, first and foremost, it's both commodity shortages and logistics. Both are challenging right now, just to give you a feel for the environment.

On the components side, I don't think there's a lot of new news. This is sort of pervasive shortages of semiconductors. And as we've called out, the trailing nodes are the most challenged; so, the 40-, 55-, 60-nanometer components. I've heard analysts and investors today sort of refer to them as the "Jelly Bean" parts. Well, those Jelly Bean parts sort of cascade through everything we sell, and that's been the challenge.

As you saw in our Q4 results, we improved backlog. We burned down backlog in CSG. But we've cautioned that we're going to see CSG backlog grow in Q1, principally driven by our high-end display challenges and desktops. So, that gives you a feel this is not a linear progress out there right now. It's a challenging environment. It's truly day to day.

On the infrastructure side of the business, again, Q4, we had record backlog. We called that out. The most acute challenges in the infrastructure business are in the server base, and it tends to be microcontrollers, but also the networking interface controllers, NIC,

cards. These are industry-wide issues. They're not unique to Dell. But that's the challenge in the space.

In terms of when it gets better, I think we've said, look, we expect the challenge and the components to be at least through the first half of this year, but we would also say semiconductor challenges, writ large, through the full sort of Fiscal '23. That's the reality.

On logistics, look, it's what you're reading about. It's principally a supply-demand mismatch. It's exacerbated by labor shortages and congestion and, now, higher oil prices. And so, we anticipate in the sort of next quarter planning horizon and likely beyond freight to be continued to be elevated. It's at a high and elevated level. And these are the dynamics we sort of anticipate having to deal with for the rest of the year.

Erik Woodring: Okay. But generally speaking, if you look back over the last, let's call it, 12-plus months, you've been able to at least manage the supply disruption fairly successfully. It's allowed you to gain share. And so, what is giving you that advantage? And do you think is that sustainable longer term?

Chuck Whitten: Well, we definitely think it's sustainable. I think we like to say it's not one thing; it's our business model that gives us an advantage. So, look, if I start on the supply chain side, certainly, we have a renowned supply chain team. I like to say they're on the Mount Olympus of supply chain teams and have been for a long time. And we buy more than anybody in our segments, and that certainly gives us an advantage when it comes to continuity of supply and access to technology and cost.

But it's more than just our sheer scale. It's also 37-plus years of an operational heritage and deep partnerships in our supply base. Those are partnerships that go from Michael and my co-COO, Jeff Clarke, all the way through our supply chain organization. And sort of that ability to go deeper and more collaboratively with suppliers, it's proven to be an advantage this year in the dynamics. So, that's one leg of our stool, if you will.

The others are important, as well. So, our direct sales model is incredibly important in our ability to navigate the environment. So, we have 32,000 team members in our sales organization. We touch more customers than anyone. And that means we get two advantages. One is we just get a cleaner demand signal that we're able to transmit back to the supply base. Incredibly helpful. It also means we can shape demand to where supply is. And so, we are frequently having conversations with customers that go something like, "I know that's the spec that you've asked for. Let me show you two or three alternatives that are on shorter lead times." Again, that's proven an advantage and helped us gain share.

And the final leg I would just call out continues to be our product teams. So, our product teams have designed our products with modularity and simplicity that has allowed us to also more quickly qualify parts as they become available.

And so, it's the interplay between those three things that I think has proven to be our advantage. And it's a business model, so it's most certainly sustainable.

Erik Woodring: Right. Okay. Okay. Perfect. And then maybe on the back of that, you've been implementing pricing increases across the portfolio. Perhaps it hasn't fully flown through the P&L yet, right? Because you're working down backlog that is lower priced, most notably in ISG. But how do we think about the margin impact as we look forward from pricing increases? Again, you're talking about component and logistics challenges, plus pricing increases, with backlog mixed in there. And so, that's one.

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And then, when can pricing kind of catch up with these elevated component and logistics costs?

Chuck Whitten: And maybe Erik, it may be easiest to start with Q4, because I think you're getting at sort of what – our margin compression in Q4 and what sort of drove that, and I think that'll help us cover it. Maybe I can give some hands-on on the go-forward.

So, in Q4, what I would describe the dynamic as is a challenge created by parts linearity. So, what I mean by that is it wasn't so much that we saw decommitments from suppliers or that the parts didn't show up. It's that they showed up later in the quarter than we anticipated.

And then two things happened. One is, in order to meet our customer needs and our commitments, we had to expedite much more around our system than normal. Anytime you step outside your planned logistics network, you incur higher costs, and that's what happened in Q4 to us. And given the inflated logistics market we just described, it was – that was part of the margin compression challenge. And we built ISG backlog as a result.

And so, given those two dynamics, you saw margin compression. That's our higher-margin business, of course. And we did bring down CSG backlog. And so, our CSG mix is slightly higher. So, that's the dynamic that we saw in margin.

Looking ahead, I would say a couple of things. One is we gave you pretty detailed guidance on how we expect our margins to move sequentially Q4 to Q1. So, if you take our 11% revenue growth at the midpoint; you take our 2% EPS growth at the midpoint; we gave you share count of 785 million to 790 million; we gave you guidance on tax rate around 20%; Tom gave you guidance around our OpEx structure – so, take our full-year rate of 14.7%, add 40 to 50 basis points; we gave you some guidance around our interest and other – you can very quickly impute our gross margin, and you will see that it improves Q4 to Q1.

Step back, what I just described, those dynamics are transitory ultimately on the P&L. And so, we certainly expect as backlogs come down, ISG mix goes up, deflationary cost environments set in, we should see margin improvement over the course of the year. But I'd start with our Q1 guidance as kind of our expectation, and then it's obviously a dynamic environment (inaudible).

Erik Woodring: Right. So, now maybe getting away from the conversation of ISG versus CSG and supply chain and go to capital allocation, because it's obviously an important part of this story, you're coming out, you're paying a dividend, you're buying back more stock. And so, maybe just elaborate on the pace that we all should expect in terms of buybacks, dividend growth, further debt reduction, M&A, kind of all four of those over the next, call it, one to three years.

Chuck Whitten: Well, look, historically 95% of our free cash flow had gone to paying down debt. And so, we were obviously excited to talk about a much more balanced capital allocation strategy, as we think our – our free cash flow generation sometimes I think is an underreported or underappreciated aspect of Dell's business.

And look, we announced that, and I think we've made sort of significant progress on that framework. Maybe a few observations. We announced, as I said, in terms of capital return the $0.33 cent per share in Q1 authorized by the board. If you take it at $1 billion for the course of the year, $1.32 a share.

We bought back, as of the earnings call, $900 million against the $5 billion we've been authorized to. I wouldn't straight-line that number through the year. But we've said, look,

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our principal objective there is being programmatic, managing dilution, but we'll be opportunistic, as well.

We've stated a long-term framework around getting our core leverage ratio back down to 1.5. And so, that's a long-term framework. We're not paying down debt just to pay down debt. But we think that's a healthy level for the company.

And in terms of M&A, I think we've been very direct that it's part of our growth strategy. We think it's part and parcel of any good growth strategy. But we are going to be exceptionally targeted. So, we are looking strategically in the spaces that I've described as us having longer-term ambition. Those are places like telco, edge, data management, etc., that we – transformational M&A is not in the cards for us right now. We are targeted and looking to augment our innovation agenda. And fundamentally, we're going to be patient. Many of those spaces, at least until recently, have been very, very fully valued. And so, we're not in a rush, by any means, to do anything, but it is going to be part of our growth strategy.

So, again, against that framework, we're incredibly happy with the flexibility we have, and we sort of would say that's the starting point of how we're going to think about it, moving forward.

Erik Woodring: Okay. So, if we look at valuation, Dell continues to trade at a discount to its peers, as of the writing of these questions: 7.5x P/E versus peers around 9x. What does Dell need to do to close that valuation?

Chuck Whitten: Well, look, maybe I'll start philosophically and just say we wouldn't be buying back shares if we didn't think the stock was a good value. So, we see the same things you do in the premise of your question. And as I described in my earlier answers, we fundamentally believe that we have an advantaged business model and should be able to drive very attractive long-term returns.

I think if you talk to investors there's probably a few things that they would say, that are sort of show-me moments for us. Look, one is – I think your second question was about PC durability. We get that question a lot. I think, fundamentally, if you're not a believer that the PC is durable or if you think the PC is dying, you're probably not likely to be in our stock.

But if you believe, like us, that it's now an essential part of the world and our lives and business, time will sort of prove out the thesis that I said earlier of the durability of the commercial PC market.

I think investors would also tell us, look, execute against what you just described in the framework, consistent execution. Important parts of that execution include growing our storage business. So, I described lots of momentum that we saw exiting the year, and we're incredibly encouraged by that momentum and see lots more headroom in that business. But investors want to see it translate to the P&L and, thus, to operating income, given the high margins in that business.

And then I think they want to see us consistently do what we say on the capital allocation, as well.

And those are the principal questions that we get. Our belief and our conviction is we continue to execute off of our advantaged positions, reinvest wisely, it'll take care of itself over time.

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But those are probably the three biggest proof points that we get asked about sort of time and time again.

Erik Woodring: Maybe to just quickly touch on that, as we think specifically about Fiscal '23, you talked about kind of long term. Think about the long-term growth framework – 3% to 4% revenue growth – as a guide. Maybe just walk through some of the dynamics for CSG versus ISG as we think about kind of first half growth versus second half growth.

Chuck Whitten: And I appreciate the opportunity maybe to clarify our guidance a little bit, because we did get a lot of questions coming off the call.

And so, we recognize that if you take our guidance literally, the 11% sort of year-over-year growth rate at the midpoint in Q1, and then, say, for the year think about our long-term guidance of 3% to 4%, that if you apply normal sequentials off that Q1, you get to a flattish or down second half, just mathematically.

That was not our intention to signal a slowdown. It was simply meant to be taken as a placeholder – I think the words we used, "as a starting point." And that's truly how we intended it.

So, we do not anticipate CSG shrinking in FY '23. We're planning for growth. We are planning for ISG growth, as well. I'm not going to redo our guidance here in the room. You can do your own math on what you believe that's going to look like, but we have conviction in the growth of the business this year.

But it's a dynamic environment. We gave a wider-than-typical guidance range. And we're going to step in, execute here in Q1, and we'll give more guidance in our Q1 earnings call and as appropriate. Hopefully, that clarifies what our intent was.

Erik Woodring: That's great. So, with the remaining couple of minutes that we have, I just kind of want to ask you, what do you want to leave the audience with? Obviously, we're kind of emerging into a new era for Dell, post VMware spin. You have this new capital allocation framework. You're talking about kind of long-term sustainability of growth.

So, just maybe to end, why are you excited? And why, specifically, should all of us that are sitting out in the audience be excited about Dell's future?

Chuck Whitten: Hey, we covered a lot of ground in these questions. I think it starts with a conviction that we have a really strong strategic starting position in our core markets, with a lot of headroom and advantages that make us really different. We talked today a little bit about our adjacent growth opportunities that'll be additive growth to that business. But we look at our hold hand as data proliferates and long-term infrastructure continues to build out and the PC remains the most essential device in business and say there's a lot of growth in shareholder value to be created in our core business.

If I step back, probably the most underappreciated part of our story is just the core stability in those markets. We've sort of proven the ability to consistently execute in any market environment.

And the long-term trends are so favorable to our business and our asset positions are so good that we just see ourselves as a very attractive long-term investment for shareholders. We see our business as essential to the fabric of the economy. And I think, as I said, if we continue to execute with discipline, it's a great time for investors to look at us and get in for the long term, particularly given the valuation.

Erik Woodring: Perfect. Well, we're just about at time.

Perfect. Well, Chuck, thank you very much for your time. I appreciate it.

Thank you, everybody, for tuning in, and stick around for the rest of the conference. Thanks.

Chuck Whitten: Thanks.

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