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Good afternoon, and welcome to the Fiscal Year 2020 Fourth Quarter and Year-end Financial Results Conference Call for Dell Technologies, Inc. I'd like to inform all participants this call is being recorded at the request of Dell Technologies. This broadcast is the copyrighted property of Dell Technologies, Inc. Any rebroadcast of this information in whole or part without the prior written permission of Dell Technologies is prohibited.

I'd now like to turn the call over to Rob Williams, Head of Investor Relations. Mr. Williams, you may begin.

Rob Williams - Dell Technologies Inc. - SVP of IR

Thanks, everyone, for joining us. With me today is our Vice Chairman and Chief Operating Officer, Jeff Clarke; our CFO, Tom Sweet; and our Treasurer, Tyler Johnson. During this call, unless we indicate otherwise, all references to financial measures refer to non-GAAP financial measures, including non-GAAP revenue, gross margin, operating expenses, operating income, net income, EBITDA, adjusted EBITDA and adjusted free cash flow. A reconciliation of these measures to their most directly comparable GAAP measures can be found in our web deck and press release.

Please also note that all growth percentages refer to year-over-year change unless otherwise specified, and that VMware historical segment results have been recast to include pivotal results. Finally, I'd like to remind you that all statements made during this call that relate to future results and events are forward-looking statements based on current expectations. Actual results and events could differ materially from those projected due to a number of risks and uncertainties, which are discussed in our web deck and SEC reports. We assume no obligation to update our forward-looking statements.

Now I'll turn it over to Jeff.

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Thanks, Rob. As Dell Technologies begins our fourth year as a combined company, we’ve never been better positioned to help our customers unlock the potential of all of the data coming their way. No one stores, processes, moves and protects more data than we do across any environment. No competitor enjoys our advantaged positions across physical and virtual infrastructure. Our investment in talent, innovation and breadth of capabilities gives us an advantaged starting position as we head into the data decade. I am optimistic, yet I know we have some hills to climb, that is evident in our FY ’20 results.

In FY ’20, we delivered revenue of $92.5 billion and EPS of $7.35. Revenue grew modestly at 1%. We delivered strong profitability with operating income up 15%. I know you want to understand what is going on with Infrastructure Solutions Group results.

In ISG, our FY ’20 revenue was down 7% to $34 billion, but up 10% versus FY ’18 as large enterprises that--our large enterprise customers digested FY ’19 CapEx investments in China slowed. Server and networking revenue declined in FY ’20, but profitability was up as we didn’t chase unprofitable server deals in a down market. Our long-term server share trajectory remains strong. We are winning in the consolidation, gaining approximately 590 basis points of share over the last 3 years, and we have been #1 in mainstream server revenue for 7 quarters according to IDC.

In FY ’21, we’re planning for both the overall server market and our server revenue to return to growth, driven by higher value workload servers, increasingly more robust AI and machine-learning solutions and distributed IT
requirements at the edge. According to IDC, mainstream server revenue is expected to grow at 3.3% in calendar year 2020, and we plan to grow at a premium to the IDC forecast.

Shifting to storage. Roughly 2.5 years ago, we began to take actions to stabilize the business and lay the foundation for growth. We have reclaimed over 300 basis points of share since 2017. One action, we have invested approximately $1 billion on a run rate basis into sales, coverage, capacity and marketing, including critical investment in storage specialists. This year, these specialists will reach full productivity. Earlier this month, we combined into 1 sales organization, and we will realize the next level of synergies and cross-sell opportunities, like selling more storage and data protection to our server customers.

We have made considerable progress simplifying our storage portfolio, moving from over 80 products 2 years ago to roughly 20 today, including our new mid-range storage solution being evaluated now by dozens of customers. And by Dell Technology World in May, we will have refreshed our entire storage product lineup under the Power brand, completing a 2.5-year journey of modernizing our entire ISG portfolio. We have never been more competitive from top to bottom. We are planning to grow FY '21 storage revenue at a premium to the market with growth strongest in HCI, followed by core storage and data protection.

Our team is tenured and ready to sell, the business is simplified and stabilized, and the portfolios -- is the best it's ever been. FY '21 is the year of ISG.

FY '20 was an outstanding year for the Client Solutions Group with a record revenue of $45.8 billion, up 6%, with commercial up 11%. We shipped a record 46.5 million units during the calendar year. We executed well, taking advantage of tailwinds from the Windows 10 refresh cycle, declining component cost while navigating through CPU shortages and a dynamic tariff environment. What's more, we're winning in the consolidation, taking share and growing at a premium to the market. We have gained share for 7 years in a row according to IDC, and the plan is to continue this momentum as the market consolidates further.

In FY '21, we expect the PC market to remain solid through the first part of the year before declining in the second half. This means we're facing a tougher compare as the windows 10 refresh wanes.

IDC, PC units -- excuse me, IDC forecasts PC units to be down 7.1% this year. The result is a slowing CSG revenue, making growth in ISG that much more important but that's the advantage of our diversified business, including VMware.

Our VMware business unit had another strong year with FY '20 revenue of $10.9 billion, up 12%, another year of double-digit revenue growth. And the business is well positioned going forward. For example, we have hundreds of thousands of VMware customers today and the combined workloads are running on the VMware installed base are bigger than all of the public clouds combined. And more customers have decided multi-cloud is the answer.

Couple VMware Cloud Foundation and NSX with our leading Dell EMC infrastructure, and we have the industry's best multi-cloud solution. The advantage of the Dell Technology Cloud as an operating model is that provides consistency across the entire ecosystem.

In application development, we strengthened and simplified our approach with VMware's acquisition of Pivotal combining critical IP and go-to-market capabilities. With Project Pacific, VMware is integrating and embedding Kubernetes into vSphere. And with Tanzu, they are building an enterprise-grade container-based development platform, and it runs anywhere.

In security, Carbon Black is integrated into our commercial PC security offering, and we are seeing promising attach rates already. Going forward, expect us to continue to innovate across the portfolio. We put together a model that allows us to work across Dell Technologies to do joint product planning and development, collaborative innovation and integration to deliver better end-to-end solutions for our customers.

We are also seeing increasing customer traction with our co-engineered first and best solutions, including Dell Technology Cloud, Unified Workspace, VxRail with VCF and Smart Fabric Director with NSX. This is especially true when we collaboratively go to market as 1 unified Dell Technologies sales team to help our customers on
their digital transformation journey. We do this with our largest customers today, and it is a unique customer experience that only Dell Technologies can provide. Customers love it, and it's driving differentiated growth. For this set of customers, we saw FY '20 revenue grow in every major line of business and 9% in total.

Looking at the rest of our customer segment performance. Enterprise Preferred accounts, orders revenue grew 6%. Our commercial business orders revenue, excluding China, grew 9% in FY '20. The investments we have made in small and medium business have both delivered strong double-digit orders revenue growth in FY '20. This segment is especially valuable to VMware as we work together to reach downstream and growth of VMware customer base with Dell's direct reach in the mid-market.

And the good news is the volume of VMware deals going through Dell is increasing across the board as we simplify and streamline our go to market. For example, in DFS, VMware originations grew 15% to $1.4 billion in FY '20. And when a VMware transaction includes a DFS payment solution, the transaction is more profitable, it's significantly larger in size, longer in duration and includes more services. We are still in the early innings of realizing our full go-to-market synergies with significant cross-sell opportunities. For example, we have approximately 30,000 server customers every quarter, and only half of them buy storage from Dell Technologies.

To address this opportunity, we've rolled out our new global power-up program across all segments to enable selling across our lines of businesses, providing additional incentives and marketing programs to sell new lines of business to existing customers who do not purchase them today. While there is more work ahead, I am confident in our strategy, and we are increasingly well positioned for the long term. Our job is clear, ignite ISG growth, manage the Win 10 transition and drive Dell Technologies' synergies. Dell Technologies has no ceiling on the potential in the data era. We remain focused on maximizing value for our aligned shareholders. And now I'll turn it over to Tom.

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Thanks, Jeff. We are focused on maximizing value for all aligned shareholders across 5 levers: current operations, synergies, new opportunities in our corporate and capital structures, and we have made significant progress in each of these areas. Since 2017, our first full year as a combined company, we have grown revenue at a roughly 77% compound annual growth rate. We have reinvested between $4 billion and $5 billion per year in R&D. And since the EMC transaction, roughly $5.5 billion in M&A, primarily through VMware.

At the same time, we are simplifying our solutions portfolio and corporate structure. Including the RSA transaction announced last week, we will have divested approximately $9 billion of nonstrategic assets on a gross basis, and we have paid down $19.5 billion gross debt since the EMC transaction, while continuing to optimize the amount of debt due in any one given calendar year.

Today, we are increasing our previously announced fiscal '21 debt paydown target from $4 billion to approximately $5.5 billion, using the proceeds from the RSA divestiture. We remain committed to achieving investment-grade ratings, and are confident in reaching a 3x core debt leverage ratio by the end of the fiscal year. We are also announcing a share repurchase program of up to $1 billion over the next 24 months, effective immediately. Share repurchase provides an additional lever to help maximize value for shareholders as we opportunistically take advantage of what we believe is a significant discount in our stock price. Our overall capital allocation framework and financial policy remains unchanged, and we'll continue to principally focus on debt pay down.

Turning to Q4. We continue to balance revenue and profitability through challenging market conditions, particularly in large enterprise and in China. Q4 revenue was $24.1 billion, up 1%. FX remained a headwind this quarter, impacting growth by approximately 100 basis points. Our deferred revenue balance grew 16% to $27.8 billion, driven by the sales of software maintenance and services. Our recurring revenue, which is the combination of deferred revenue amortization, utility and as a service model, is now approximately $6 billion or 24% of our quarterly revenue, and we will continue to focus on growing these offerings.
Gross margin was up 4% to $8.4 billion and was 34.7% of revenue, up 120 basis points, driven by lower component costs, pricing discipline and mix shift to software. Operating expenses were $5.6 billion, up 4% due in part to investments we have made in sales coverage to broaden solution sales capabilities and target specific customer segments, including small and medium business.

Operating income was up 4% to $2.8 billion or 11.5% of revenue. Our consolidated net income was $1.7 billion, up 6%, benefiting primarily from operating improvements and a reduction in interest expense. Our EPS was $2 for the quarter.

Adjusted EBITDA was $3.2 billion or 13.3% of revenue and a record $11.8 billion for the year. Over the last 2 years, we have generated over $22 billion of adjusted EBITDA. We generated $3.8 billion of adjusted free cash flow in Q4, up 49%, driven by strong profitability and working capital discipline. And our full year adjusted free cash flow was a record $8.9 billion, up 31%.

We repaid approximately $1.5 billion of gross debt in the quarter or $5 billion for the year, in line with our fiscal '20 commitment.

Shifting to our business unit results, Client Solutions group delivered strong Q4 revenue growth and profitability. Revenue was $11.8 billion, up 8%, as the team did a nice job working through CPU shortages. Commercial revenue was $8.6 billion, up 10%, including double-digit growth in commercial desktops and workstations. Consumer revenue was $3.2 billion, up 4% as we continued to prioritize CPUs to our commercial business. CSG operating income was $624 million or 5.3% of revenue. Profitability was driven primarily by component cost declines, pricing discipline and our commercial consumer mix.

As Jeff said, we have work to do in the Infrastructure Solutions Group. ISG revenue was $8.8 billion, down 11%. Storage revenue was $4.5 billion, down 3%, with strong double-digit demand growth in HCI, offset by softness in core storage.

Servers and networking revenue was $4.3 billion, down 19%, due in large part to a soft market, particularly in China and in certain large enterprise customers in the U.S. and Europe. ISG operating income was $1.1 billion or 12.7% of revenue.

Our VMware business unit had another solid quarter. Revenue was $3.1 billion, up 12%, with operating income of $1 billion or 32.8% of revenue. And NSX, vSAN and EUC product bookings grew over 20%, mid-teens and over 30%, respectively.

Dell Financial Services originations were a record $2.8 billion, up 30%, with record managed assets of $11.6 billion, up 19%. With DFS, we facilitate solution sales across Dell Technologies, driving incremental recurring revenue and operating income.

Across the portfolio, we are offering our customers’ choice with industry-leading as-a-service and flexible consumption solutions through Dell Financial Services. With our data center utility, Flex On Demand and PC as a Service offerings, we now have approximately $3.5 billion in flexible consumption model assets under management, and our flex -- FY '20 flexible consumption billings totaled nearly $900 million.

Turning to our balance sheet and capital structure, we ended the quarter with $10.2 billion of cash and investments. Our total debt ended the year at $52.7 billion. Because our total debt includes VMware’s debt obligations, DFS funding where the majority is non-recourse to Dell and the over-collateralized margin loan, we feel core debt is more representative of the core Dell debt service obligations.

Our core debt ended the year at $33.8 billion, down $5.5 billion in fiscal '20. Our core leverage ratio ended FY '20 at 3.2x down a full turn from 4.2x at the beginning of the year. Core debt excludes our DFS-related debt, which has grown with the increase in our financing originations. Majority of our $9.3 billion of DFS-related debt is non-recourse to the company and is backed by high-quality receivable streams, it's important to note that it does not require cash flow from operations to pay down.
Moving to guidance. We continue to monitor the macroeconomic and IT spending environments, including current softness in large enterprise in China. We also monitor the impact of COVID-19 on our sales and supply chain. We expect the Win 10 refresh to continue into the first half of fiscal '21. While CPU shortages have improved, we expect them to continue through at least the first half of the year. And as discussed in our Q3 earnings call, we expect the component cost environment to be inflationary in fiscal '21, a headwind to margins. We also talked about our operating income percentage trending closer to fiscal '19 levels on the Q3 call.

Because of these factors, and assuming the RSA sale closes in Q3, we expect fiscal '21 GAAP revenue of $91.8 billion to $94.8 billion; operating income of $3.4 billion to $4 billion; and EPS of $0.37 to $1.07. We expect our non-GAAP revenue range for the current fiscal year to be $92 billion to $95 billion; our non-GAAP operating income range to -- is $8.9 billion to $9.5 billion; and our non-GAAP EPS guidance range is $5.90 to $6.60; our non-GAAP tax rate is expected to be 18.5%, plus or minus 100 basis points.

This full year guidance does not factor in any potential COVID-19 impact. Like our customers, our top priority is ensuring the health and safety of our employees and communities. We do anticipate a negative impact on our normal Q1 seasonality driven by softness in China, our second largest market. We will manage the supply chain-related dynamics with extended lead times for certain products, particularly in client.

In closing, last year, we leaned on CSG growth with PC demand driven by Win 10 refresh and CSG margin expansion given the favorable component cost environment. This year, we will lean on ISG growth and share gains. As Jeff said, fiscal '21 is the year of ISG. We see great potential and possibilities at Dell Technologies as we enter the data decade. We will continue to focus on winning in the consolidation in our core hardware markets and delivering differentiated value by innovating and integrating across the business for our customers, our investors and our employees. Our model is focused on long-term profitable growth, and is advantaged given our ability to adjust as needed based on market conditions. We are focused on growing faster than competitors in the industry, growing operating income and EPS faster than revenue over the long term and generating strong cash flow.

With that, I'll turn it back to Rob to begin Q&A.

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Rob Williams - Dell Technologies Inc. - SVP of IR

Thanks, Tom. Let's get to Q&A. (Operator Instructions) Erica, can you please introduce the first question.

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Q U E S T I O N S   A N D   A N S W E R S

Operator

And we'll take our first question from Rod Hall with Goldman Sachs.

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Rod Hall - Goldman Sachs Group Inc., Research Division – MD

I guess, I wanted to focus on the DFS expansion, and just see if you could give us a little bit more color in terms of why that expanded faster this quarter. And is that a signal that you guys intend to use DFS more aggressively as we look forward into the next fiscal year.

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Tom Sweet - Dell Technologies Inc. - Executive VP & CFO
Rod, it's Tom. So hey, look, I think we've been very pleased with the DFS growth and their ability to facilitate the selling of our solutions across our customer base and provide the necessary financing capabilities and we've seen great receptivity of the Flex On Demands, and the flexible consumption models and the utility models that we've been driving through the business. We were very pleased with the -- what we saw in Q4 in terms of the family of Dell Technologies, principally VMware utilizing the financing capabilities to help drive sales. And obviously, you saw that in the origination numbers. And so I think we’re ending the year with roughly over $11.8 billion in managed assets. We're pleased with that. You know, Rod, obviously, that we've financed the DFS business using the securitized debt, for the most part, securitized by the financing receivables. And so that structure works very efficiently. So relatively inexpensive cost of capital. And we're going to continue to drive it. It's proven to be a facilitator of our selling people -- our team members, I should say. And we think that we can continue to grow originations and continue to drive solutions. And with the demand that we're seeing around flexible consumption models and as-a-service models, I think we're excited by that economic framework and the ability of our -- of DFS to continue to provide that type of capability.

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Rod, I would add to that. I mean, so much so that we launched a program called Dell Technologies On Demand last November, which packages our consumption, our various as-a-service, our metering usage capabilities and look at some modern way customers want to digest or ingest IT. And I think you're going to see us continue to build upon the programs that allow us to give our customers the flexibility they need to consume IT in a variety of ways, whether it's pay as you grow, Flex On Demand, some of the data center utility that Tom mentioned. We think it is the wave of the future. We think we have a very differentiated offering that you're able to consume IT from us without being forced to use our managed services or various services. You can pick and choose as you please. And we offer this capability across the entire portfolio from our PCs to our servers, all the way to our infrastructure gear. And then earlier this week, you might have seen, on the Dell Technology Cloud, our VxRail plus VMware Cloud Foundation, we added a subscription service capability along with that. So I -- look, I think, as Tom said, this is a key component. It's sticky with our customers, and it's how they want to – increasingly want to consume.

Operator

We'll take our next question from Amit Daryanani with Evercore.

Amit Daryanani - Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst

I guess, to start off with -- can you just talk about -- Jeff, I think you mentioned fiscal '21 to be the year of infrastructure segment or something thereabouts. Can you just help me understand, what does that really mean for Dell. Is there a growth bogie, a revenue bogie that you have when you made that statement? Or how do you deal with operating margins, maybe that's it. But I'm sort of trying to understand, what is the year of infrastructure segment mean for the company?

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Look, I think Tom and I will kind of ham and egg this together. But if you step back and you look at our business and the fact that we think the Windows 10 transition on the CSG side, last year, the first half of the year, and then we'll be facing tougher compares. And for us to hit the revenue guidance that Tom mentioned earlier, our ISG has
to perform better than it did in FY '20. It's that simple. And then if you think about a core construct of the strategy of the company is to win in the consolidation, in this case, win in the consolidation of the core server market, win in the consolidation of the core storage market, we have to outperform the market, and that requires us to grow. Yes, we have growth bogies for our business. We have a gain share plan and a revenue share gain. I'm not going to give those numbers out. It's implied in the guidance that Tom gave. And we have to see the ISG perform on a year-over-year basis, it has to be a dramatic improvement. I mean, you heard the numbers that we talked about where the whole business was down over the year and our Q4 performance wasn't where Tom and I would have liked it. So as we think about what will change -- because if I would guess your next question is, what will be different? Why will it be the year of ISG? And I think you have to look at it from maybe 2 components, the server side and the storage side. I'll start with storage.

We have invested a lot in capacity and coverage. That capacity and coverage is increasingly more tenured. We'd head into FY '21 with the most tenured productive capacity we've had in our storage sellers, period. You couple that with the completeness of the product portfolio or if you prefer the overhaul of the product portfolio that we spent the last 2.5 years modernizing that stack. It's completed by mid-year. So our belief is, and why it's part of the gain share plan in storage is a modern competitive portfolio, best-in-class in many areas with the most tenured sales force that we have in storage. That's our growth plan.

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**Tom Sweet - Dell Technologies Inc. - Executive VP & CFO**

Jeff, I would add on the storage comment. Just that as we look at the opportunity to cross sell and the synergy opportunity there between our server buyers and those buyers that buy storage, it's roughly a 3:1 ratio or something like that of servers to storage. There's an opportunity there to cross sell with the more tenured sales organization with the coverage expansion that we're driving. I think we're -- feel good about the opportunity to go mine that customer base and expand the customer base for storage. I think that's the other thing that, as we think our way through what's different about fiscal '20 versus fiscal '21, that's going to be important for the folks on the phone to think about. You want to talk about servers real quick?

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**Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO**

I'm happy to add servers on top of that as well. When you think about servers and our performance this year. If you step back and over the last 3 years, I think we mentioned in our remarks, roughly 590 basis points of share gain. We've added $4 billion of server revenue left over the last 3 years. Calendar '19, fiscal '20 was a year of digesting the large capital investments of the 2 previous years. Surveying of customers, the IDC outlooks are vastly improved for the demand profile in calendar '20 than they were last year at this time. So we're optimistic that the demand comes back. We have historically ran at a premium. We've run at a premium to the point where we've taken share -- a pretty significant share, as I mentioned, over that 3-year period. We've become the #1 server provider in the marketplace, and we think that's a catalyst for growth. And that's how we built our plan this year.

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**Tom Sweet - Dell Technologies Inc. - Executive VP & CFO**

Yes. And just to remind everybody, we have, for most of the year, this year, talked about, quite frankly, the challenges we've seen in the server space, principally around China and around North America Enterprise, that large bid business, and we've chatted about that over the last calls that we've done. So when you think about the fact -- look, I mean, overall, server revenue's down roughly 14% year-over-year. You dissect that and you look back at our demand or our orders velocity and while server revenue is down 14% on a ship basis, if you dissect that, China demand's down roughly 35%, and the rest of the world's down roughly 5%. So what does that translate to? It really means that we saw above-market growth in areas like North America, commercial, medium
business, small business in Latin America, we saw market growth or our market rate growth in APJ and EMEA, and the softness was in China and within that North American Enterprise space, which was roughly down double digits there. And so look, I think we understand where the soft spots have been. China will continue to navigate -- situationally, we're focused on expanding the buyer base there. We're focused on changing that business model to make sure that we expand the server buyer base over time and derive lifetime value for the customers that we acquire. And obviously, there's dynamics there, with the coronavirus that's going on now, but we're going to work - - we'll continue to work our way on the business model in China. And so we're really focused on how do we drive velocity back into the business, while being thoughtful about profitability.

Operator

We'll take our next question from Toni Sacconaghi with Bernstein.

Toni Sacconaghi - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

I was just wondering if you can comment on sort of your longer-term outlook. I think before you became public, you talked about 4% to 6% revenue growth at the Analyst Day in the fall, you said 4%, plus or minus 1%, which is 3% to 5% top line growth. And if I look at your 4 years, last 4 years, your revenue growth has been, 1, 1, 2, and 3 and 13. So you've been 1 or 2 for 3 of the 4 years. And ex-VMware, you really -- you haven't grown in essentially 3 of the 4 years. So it does feel like you've become increasingly cautious about your long-term outlook. And I'd like -- if you could explain why that is. And should we be thinking about core Dell, ex-VMware sort of flattish on a go-forward basis in the top line, given the historical track record and sort of given the nebulous commentary around longer-term growth provided in your slide deck.

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Toni, it's Tom. So look, I would think about it like this. So I think over the last 3 years, we've had a compound growth rate at the top around 7%. And yes, there has been variability by year. And much of that has been situational on where the market is. And even if -- so if you're in a down market, and you're growing at a premium. It's still a -- their growth rates continue to have been under some pressure, to your point. But our model is built on long-term growth and consolidation of the market and share gain. I think what you've seen us do is navigate our way through the environment that we've been in. So fiscal '18 and fiscal '19 was clearly the year of velocity where we added roughly $11 billion of revenue to the business. Fiscal '20 has clearly been one where we've had to navigate through what I would call a tough sort of infrastructure spend environment, and we leaned into the client business. And so -- and at the same point in time, generated extra --I think, strong profitability and cash flow as we navigated through the business. So your point's valid in the sense of, yes, we've had to navigate through it. Look, I think, longer term, what we've talked about is the fact that we'd like -- we think our growth is sort of going to mirror GDP. And so the range we gave you for next year sort of has the GDP range as it exists today at that upper end of the range. Obviously, we're trying to be thoughtful around the dynamics in the environment right now, although our guidance doesn't specifically include coronavirus. But again, you're looking at a market in FY '21 for us, or fiscal '21, that you've got an IDC forecast of negative, I think, 7 or negative 8 in the client business, so we're going to grow at a premium there. You've got an IDC forecast that essentially says low single-digit growth in mainstream server revenue, and you've got an IDC forecast that essentially is relatively flat on external storage. And so even with the growth premiums we're driving, it does create a bit of growth dynamics that we're going to have to work our way through. But I think we're bullish in the long term on the overall business. Yes, VMware has been clearly been a positive from a growth story. And we have driven a lot of synergies with VMware in the context of driving velocity for VMware, and we'll continue to do so. So look, we have been, I think, tried to be thoughtful about how we're guiding the business in the context of the environment we're in, I think we're bullish in the long term, but we're going to have to navigate through some of the short-term dynamics that we're seeing.
Operator

We'll take our next question from Shannon Cross with Cross Research.

Shannon Cross - Cross Research LLC - Co-Founder, Principal & Analyst

Tom, can you talk a bit about the comfort level with cash generation, given some of the puts and takes with the weakness in TCS that's coming theoretically because of coronavirus, but they may be getting back toward the end of the year. And then also just in terms of the amount of investment you need to make. And then just a below-the-line question, think you can talk a little bit about some of the puts and takes, interest in the equity line and all of that, just so we can make sure we're all in the same camp in terms of where we should be for fiscal 2021?

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Great. Thanks, Shannon. Let me start on the cash and then Tyler is here. So I'd also -- I also would like him to comment on any additional insight. So look, I think we feel good about -- with what we know today about our cash flow forecast. We did up it given the RSA -- or did up the debt repayment given the RSA transaction that's scheduled to close in, I think we're estimating Q3 time frame at this point. Yes, the coronavirus is a -- has created some level of uncertainty, if you will, and we signaled in the guidance conversation that I had in my prepared remarks that we did expect our sequentials -- or normal sequentials from Q4 to Q1 to be softer as a result of the coronavirus impact. We are not looking at that at this point with what we know that, that isn't -- that it affects the full year. The question that we've been thinking our way through is, as we look at the impact of the coronavirus is, there's 2 principal impacts right now. One is in our domestic China business, which has been, obviously, with the Chinese economy softening, and given the -- what they're going through to try to contain the virus. We do expect an impact in Q1 in the China business itself. And then the question becomes to this extent that there's supply chain or lead time dynamics, how do you think about demand as a perishable, or does it defer? I think our thinking right now is that, to the extent that it's the only demand that we see that is perishable at this point is that consumer demand, where they want to buy a product now, and if you don't have the right product or the lead times don't work, perhaps they move elsewhere.

Now, we'll obviously continue to refine that as we move forward and learn more about impacts. But I do think for the full year, we feel good about our cash forecast at this point in time. We've got a very efficient working capital model. I think if you look at the amount of debt coming due, I think it's very, very manageable this year. And our whole goal was to get ahead and try and drive some of the future maturity stacks down. And Tyler, maybe you can comment on that?

Tyler Johnson - Dell Technologies Inc. - Senior VP & Treasurer

Shannon, maybe a couple of additional points. So one, obviously, we're -- if you look at the balance sheet and where we ended cash, right, we're ending it at very healthy levels. So I feel good about that. And then Tom talked about some of the dynamics in China. And if you think about where our cash is generated and what we actually use to really run the company, the cash in China is not always immediately accessible. So from a liquidity perspective, it's not necessarily an impact in terms of what I'm using kind of for day-to-day liquidity.

Rob Williams – Dell Technologies Inc. – Senior VP of IR
And then the below-the-line question?

**Tom Sweet - Dell Technologies Inc. - Executive VP & CFO**

Oh, yes. So page -- I think if I point you to the slide deck, where we lay out the -- and I think it's like Page 26 or Slide 26 in the deck where we talk about the F&O impact. If you look at that this year, what you essentially see is about $2.8 billion below the line, principally made up of interest expense and some FX costs. The way I think about it is, if you roughly think about the fact that for FY '21, we should have reduced interest expense at the Dell level, Dell EMC level, if you will, roughly a couple of hundred million dollars. We are getting -- VMware has additional debt and less interest income. So you've got an offset of that couple of hundred million by say, $100 million or so and then you got FX. And we don't forecast the gains coming out of the venture portfolio. That will happen as it happens or not. And so we think the right number to be thinking about is between roughly $2.6 billion to $2.7 billion at the F&O line. It's in that range. And I would think from a share count perspective, you ought to be in sort of that 760-ish -- $760 million range, given some of the dilution we're seeing out of the equity program. So that's sort of rough math. Now you know that share count will fluctuate depending upon, obviously, share price and not of exercises, but that's sort of the number that we've been modeling.

**Operator**

We'll take our next question from Katy Huberty of Morgan Stanley.

**Katy Huberty - Morgan Stanley, Research Division - MD and Research Analyst**

Tom, first to you. Should we think about the share repurchase that was announced today as potentially the start of a bigger capital return program once you get to investment-grade? And then just wanted to ask a follow-up for Jeff, given the importance of storage, the ISG business, can you just talk about what happened to delay the midrange storage launch, whether you think there's a revenue impact from that delay?

**Tom Sweet - Dell Technologies Inc. - Executive VP & CFO**

Katy, it's Tom. Let me talk a little bit about the share repurchase, which is -- we have always thought about, at the appropriate time, a shareholder value, shareholder return program. I think as we thought about it, and given where we were in our debt repayment schedule and our ability to continue to pay down debt, we thought it was appropriate and timely, if you will, to put in a share repurchase plan. Now, obviously, it's $1 billion over 2 years, and we're going to be thoughtful about -- and a bit opportunistic. We think our stock is trading at a discount that doesn't quite make sense to us. And so we're going to begin to take advantage of that. I do think, to answer your second part of the question, which is, I think we have in the past said once we hit investment-grade, we would have -- the capital allocation framework would adjust and changed so that we are create -- having some type of a shareholder value creation opportunity for our shareholders. And so yes, I think this is the first step in that journey. We are obviously focused on making sure that we hit our commitments around debt repayment. That is a -- the primary use of our capital at this point in time and as we work our way back to investment-grade. And -- but I do think that a shareholder return or shareholder value comp framework makes sense as we move forward.

**Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO**

Midrange.
Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Midrange.

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Katy, so let me tell you where we're at, what we've done and then you can ask a follow-up question if I'm not clear enough. So first of all, we delivered a number of arrays to our beta program, quite honestly, the largest beta program that we've ever run in the history of the company in Q4. So we have dozens upon dozens of customers that have the product in their hands today, and we're really pleased the feedback has been overwhelmingly positive. From the flexibility of the platform to the absolute performance of the platform. So we're excited with what we're hearing to date. It is late. I committed to be done by the end of the year. It didn't get done by the end of the year. That's on me. And the reason that it's late is being the quality and reliability leader in the marketplace, I was pushing us to really drive on the customer experience side and learn from the last mega launches that we've done in storage. And what we learned during that studying of how do we enable a quick launch with our sales force, we wanted to do the broadest at-scale system test we've ever done. That's what we did. Quite honestly, I underestimated how long it would take. And as a result, we've been late as sort of the byproduct of that decision that I made to do a larger -- the most comprehensive at-scale system test. But it gave us an opportunity to address what we've learned in the beta program. It gave us an opportunity to keep our sales force focused on year-end of the last fiscal year. Two weeks ago, we stood up in front of the entire sales force, we trained them on the Midrange.NEXT platform. They're excited about it and we will begin selling the product before the end of this fiscal quarter in Q1, and there is no material impact to our revenue plans in storage or the midrange. We're actually quite excited. When we think about the midrange, Tom mentioned earlier, that yes, calendar '20 storage forecast is actually slightly down. But the midrange is expected to grow about 4.5%. It's the area where we've been most challenged. And with this product, we really crispened up the mid to the high end of the midrange portfolio and with our Unity XT platform, which is performing quite well, we have a really comprehensive coverage of the midrange storage marketplace, which is the largest segment, and we're pretty excited about the prospects there. We need to get the product done. It will be done. We will be taking orders and delivering before the end of the quarter.

Rob Williams - Dell Technologies Inc. – Senior VP of IR

(Operator Instructions)

Operator

We'll take our next question from Wamsi Mohan with Bank of America.

Wamsi Mohan - BofA Merrill Lynch, Research Division - Director

I was wondering if you can talk a little bit about where you are with portfolio reorganization. Clearly, you had a decision to sell RSA. Wondering what sort of prompted that from a timing perspective? And then, I mean, historically, EMC had done a ton of acquisitions. There's a lot that's buried in there that I don't know how core Dell
used that or not. So any color on where you think the portfolio changes, if there are more to go and magnitude of those and the users potentially of that, would that be more towards capital return, if they were to happen.

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**Tom Sweet - Dell Technologies Inc. - Executive VP & CFO**

Wamsi, it's Tom. So I think what we have said consistently over the last year or 2 has been that we continue to look at the corporate structure and the capabilities and the assets that we have within the family. And as you recall, shortly after we combined the companies, we did sell the services -- the legacy Dell Services business, the software business and the...

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**Rob Williams - Dell Technologies Inc. - SVP of IR**

ECD.

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**Tom Sweet - Dell Technologies Inc. - Executive VP & CFO**

ECD business. Thank you. And so look, we continue to look at it. But we're triggered the RSA -- decision was essentially, as we continue to look at our security strategy, we are increasingly focused on intrinsic security. How do we build security into the core of the products. RSA is a nice asset. I think our perspective was that if it wasn't going to be core to our security platform and strategy, that was probably better to do something different with that asset, and put it in the hands of an ownership structure that was going to optimize the platform and optimize the asset. And so that was the decision to sell. I think the team did a nice job running the process. We're going to continue to evaluate the rest of the portfolio. And assume -- thinking through the alignment of assets, the alignment of capability with where we're headed strategically in a number of areas, including security and data management, data services. So all of those areas are of interest to us. Obviously, I don't want to go over my skis here. So but our commitment to you is that we'll continue to think about where is the right -- what capabilities do we need to own, what capabilities do we partner for, what capabilities should not be part of the family. And we'll continue to simplify their corporate structure. Because that's been -- continues to be feedback around the complexity of the Dell Technologies' portfolio. And obviously, we want to think our way through thoughtfully where what capabilities belong in the family and what capabilities are better off outside of the family.

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**Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO**

Well I think, Tom, to add to that, maybe more of a product and offer and IP point of view, we've made a tremendous amount of progress simplifying the portfolio, consolidating IP, changing the way that we build integrated products across the Dell Technologies companies. So if you think about the work we've done now with Carbon Black, Unified Workspace, VMware, Dell PCs, Dell services and building an integrated platform that we can sell a modern PC experience by, you're going to see us consolidate more of our technology that way, where I point to Dell Technology Cloud, the work that we've done with VMware, with being more cloud foundation, VxRail, now a series of offers that we're building around that and the multi-hybrid cloud world that we operate in, yet another form of a consolidation of portfolio and simplifying our offers to our customers. Remember, the second component of our strategy, I mentioned the first one was all about win in the consolidation, the other one is to go build deeply integrated solutions that drive incremental value for our customers, which is really about simplifying the individual products across the portfolio and building integrated solutions. And we spent a great deal of time there. You'll see us do more of that going forward.
Operator

We'll take our next question from Jeriel Ong with Deutsche Bank.

Jeriel Ong - Deutsche Bank AG, Research Division - Research Analyst

So it seems -- I want to kind of maybe just paint a picture a little bit and think about ISG, there's a little bit more bullishness in ISG for the year. And I think you've kind of painted your storage picture in terms of then having products in the mid-range, et cetera, so I can kind of see your point of view there. But on the server networking side, it seems like the year-on-year growth has kind of declined more and more with each passing quarter. So what gives you confidence in that turning around and contributing to growth for the full year?

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Well, I think I'd point back to the earlier question and comments that Tom and I made. You're clearly right. When we look at the performance over the fourth quarter, there was a deceleration of the store -- of the server business. I recall correctly minus 9, minus 12, minus 16, minus 19, for the annual number that Tom represented, minus 14. If you break that down, it really is concentrated in Greater China. Greater China was down 35% on an orders basis over the year. Rest of the world was minus 5%. Inside that minus 5%, what slowed down was our North America enterprise business. In other words, we actually grew in small business, medium business, North America, commercial and LatAm. We grew at market in APJ and in EMEA, and then the 2 hotspots are the ones that we've called out consistently have been China and North America Enterprise. Tom talked about the China market and the dynamics that's going on there, so I think the real follow-up question is "What are we doing differently in North America Enterprise to change our performance?"

And as we think about that, we're driving a -- if you will, a different coverage alignment. We're going back through the coverage models. We're enhancing that because at the core, we have to grow the buyer base. And if I think about the number of PC customers that we have across our enterprise accounts and the number of server customers that we have in our enterprise accounts, there is a big drop off between the 2. And we need to cross sell. We're already in those accounts. Yes, they are different buyers inside those different customers but we have to bring our end-to-end capability across the customer set and cross-sell and expand what we sell in each of those customers and change the coverage map, so we can bring on new customers to the fold. That's fundamentally the work that's underway. We have some new programs inside the corporation. You would not know about it, but we've trained our sales force 2 weeks ago on this, a power-up program, which is essentially allowing us to go build cross-sell, build the buyer base, bring seed units and marketing programs and incentives for us to expand the buyer base across the various segments, in this case, North America Enterprise, our largest customers.

We're pretty optimistic there. We see that our sales force is more tenured, again, bringing back that notion of a more tenured sales force is a more productive sales force, and we're going to lean on that as we head into this fiscal year. So that's what is changing. The market's better, too. Depending on how you look at it, the x86 market's forecasted to be up 1%. That's 5 points better than the same time last year. Mainstream place -- space, where we predominantly operate is projected to be or forecasted to be up 3.3%. We're going to grow at a premium. Content rate's up. Our exposure to high-value workloads is increasing. Those drive higher TRUs. And we're pretty optimistic about our ability to take share and outperform the marketplace broadly across the server market. Tom, anything to add?
Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

No. I would just also comment on the fact that with that higher content and with the commodity cost inflation that's being forecasted, you would see a positive impact on TRUs as you think about how you're adjust -- you'll adjust pricing as you go through the year. So that's also a benefit to top line.

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Exactly. All right.

Operator

We'll take our next question from Aaron Rakers with Wells Fargo.

Aaron Rakers - Wells Fargo Securities, LLC, Research Division - MD of IT Hardware & Networking Equipment and Senior Analyst

One of the comments that was made during the prepared remarks was the 3:1 ratio, as far as your server customers that actually purchase the storage portfolio. I'm curious if you could help us understand how that's evolved over the past 12 or 24 months. What does that look like, call it, 1 year or 2 ago? And how do you think about driving that? What kind of initiatives have you put in place? And how would you define success in that ratio looking forward?

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Well, in the prepared remarks, I believe I said we have roughly 30,000 server customers a quarter and less than half buy our storage. I didn't say that, that's certainly what I meant to say.

Aaron Rakers - Wells Fargo Securities, LLC, Research Division - MD of IT Hardware & Networking Equipment and Senior Analyst

Yes. You did.

Jeff Clarke - Dell Technologies Inc. - Vice Chairman & COO

Look, if you look at the long-term trend there, the server component of that buyer base is modestly growing and the storage one isn't. That has been our challenge. And the capacity and coverage that we put in place is intended to change that direction -- change that trajectory. It takes longer for a sales person, a sales maker, a sales specialist in stores to come up the productivity ramp. So I think Tom and I have made reference throughout the session this afternoon that the tenured productivity of our storage sellers is the greatest it's been as we head into fiscal '21. That's important to us. That is a driver. So if you think about more tenured productivity, broad coverage of the marketplace, a more competitive product line from top to bottom, that's the lever that we are going to drive our storage business with. And then I just made reference in the previous question to a program that we put in place called Power Up, which is, again, an internal program, centered around driving cross-sell and upsell of our portfolio, winning new customers. It really is about seed units, promotional offers, we're putting sales incentives in place. In fact, Tom and I improved a sales compensation plan that incents our sales force to sell
multiple lines of business and account. So if you start with -- we have the most customers in our PC division, the next most customers in servers and the next most customers in storage, cross-selling, incenting our sales force to sell more lines of business as we move down the stack is certainly where we've tilted the compensation plan this year.

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Hey, Jeff, the other thing I think that's important to comment on, as we talk about storage and storage velocity is the velocity of the VxRail capability and product solution set, right? I mean, that's growing plus 60% year-over-year, and so there's great velocity in our ACI solution capability that will continue where it's appropriate for the workloads, we're clearly focused on driving that. And then I think as part of this -- you've mentioned the more tenured sales organization, but also, we need -- we called out the fact that since we have combined the selling organizations, we have adjusted coverage models to reach farther into the customer population.

Jeff Clarke - Dell Technologies Inc. - Vice Chairman

We freed up capacity.

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

To drive a selling motion that touches more customers. And so it's going to be -- there's no 1 magic bullet here. This is going to be a combination of the mid-range capability we're bringing online, the coverage model expansion, the marketing programs and the tenure of our capacity, so -- selling capacity. So those combined, coupled with great velocity in our VxRail capability, I think, all point to opportunities for us to grow.

Operator

We'll take our next question from Simon Leopold with Raymond James.


Thanks for the color that you gave around your vision for ISG for the -- looks for the year '21. That's pretty helpful. But I guess my question is, given that you've been making these investments around capacity and coverage, and commentary from competitors that imply that they're seeing more aggressiveness from Dell. I guess, I would have expected fiscal 4Q results to have trended a bit more towards stable, I guess, to better reflect that. So could you just help us understand maybe if there were some specific puts and takes that were unique to this quarter? Or if the headwinds that you saw in North America were incremental to what you've been seeing? So maybe if you could just help us flesh that out a little better.

Tom Sweet - Dell Technologies Inc. - Executive VP & CFO

Yes. Look, I think our philosophy here as we have navigated through the year, this year has been to where we think it's appropriate to be aggressive to when customer business that we think has longer-term value, then we'll be appropriately aggressive in terms of acquisition pricing to win that business. As we went through the -- and so I don't really think -- and where quite frankly, it doesn't make sense or where we don't see long-term value, and
there's the competitive dynamics of the competitive pricing environment haven't made sense to us, you have seen us step back from some of that business. And I think essentially, we saw a couple of things. As it relates to servers in the North America Enterprise, large enterprise space, for instance, the number of bids is down and the price aggressiveness on most of those contracts or bid opportunities has been quite aggressive. And so we have been selective in where we have chosen to participate, and then you get into decisions around do you have other labs that you're selling to that customer? What's the customer overall profitability look like? Do you have the opportunity to recover some of that aggressive pricing over time. And that's the balance. And the needle that we've been threading as we've gone through the year. And as a result of that, you saw softness in North America Enterprise. I'll talk to China in a second. And so look, did we -- do see anything incremental in Q4? I think the trends that we've talked about have essentially continued in Q4, in terms of the aggressiveness of the pricing, and the cycle time on opportunities is clearly longer. And so that's been a dynamic that we just had to work our way through. And so as you think then and pivot into fiscal '21, you said, well, what's different, well, the market is supposed to be better, we've got better coverage. I think the dynamics around our reach into selling organizations to cross-sell opportunities are all going to be positive for us in the coming year. And on the storage side, it's been the -- we've had great success with our VxRail product. We've seen softness in the core array. Again, that infrastructure space has been soft. We've taken share, a firm 270 to 300 basis points of share over the last 3 years. We've been navigating through what I think has been a challenging environment there. But I think as we step into FY '21, I think we're better positioned from a coverage model and from a solution perspective. And so look, I think it's a -- those are the navigation we've had to do as a result of that. Granted, there was some revenue pressure clearly in the ISG space, but yet, we drove great profitability across the business and strong cash flow. And so it's all about how do you balance the model given the market that we see and that we participate in.

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**Rob Williams - Dell Technologies Inc. – Senior VP of IR**

All right. Well, good. Well, thanks, Simon. We're going to wrap up there. Just as a reminder, we'll be at Morgan Stanley next week in San Francisco. And we will be hosting an IR track at Dell Technologies World. We'll begin that the evening of May 3 and continue on the 4. So hopefully, we'll see many of you there, and there'll be additional information in the coming weeks on that event. So thanks for joining us today.

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**Operator**

This concludes today's conference call. We appreciate your participation. You may now disconnect at this time.