TRANSCRIPT

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PRESENTATION

Operator

Good afternoon, and welcome to the Fiscal Year 2021 First Quarter 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. (Operator Instructions)

I'd 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, Erica, and thanks, everyone, for joining us. With me today are our Vice Chairman and Chief Operating Officer, Jeff Clarke; our CFO, Tom Sweet; and our Treasurer, Tyler Johnson. In addition to our press release, financial tables and web deck, beginning with Q1, edited prepared remarks and additional materials are now available before the call on our IR website. The guidance section will be covered on today's call.

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 events and results 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. We are all living and working in extraordinary times. Let me upfront, on the behalf of the Dell Technologies team, send our thoughts and best wishes to the global community. Though we are starting to see positive signs around the globe with regards to the pandemic, we understand the unimaginable scope and scale of what it is at its core, a humanitarian crisis. We know that little on our world is untouched.

On a personal level, what keeps me going is staying connected. COVID-19 has challenged every convention of our lives. I am finishing up day 78 working from home and settling in into a new normal. I am remote, yet more connected than ever with a deeper sense of unity. I'm not traveling, but I'm visiting with more customers, partners, suppliers and team members, and I'm busier than ever, yet I have more time for my family than I've had in years. And as I reflect on the past quarter, several truths have been reinforced through the pandemic. One, technology has never been more important. That plays a key role in fighting the virus on the front line, it is essential in the development of vaccines and will be a catalyst in the recovery. As a result, digital transformation will accelerate us into the fourth industrial revolution. And then lastly, Dell Technologies' broad portfolio of businesses and capabilities enabled us to work through the crisis and deliver differentiated results for our customers and our company.

Over Q1, through today and into the future, our focus has been and will be on, one, our people; two, our customers; and three, our business. Let me start with our team members.

The safety and health of our team members, their families and the communities where we live and work is job one. We restricted global travel and moved to virtual-only events. 90% of our 165,000 team members worldwide moved to work from home over one weekend, and they are successfully supporting our customers and partners remotely. And we are protecting our essential employees whose jobs require them to be on-site or with customers with new pandemic-specific protocols.

Next, our customers. Consumers to small businesses to multinational corporations were forced to implement work-from-home, learn-from-home strategies and reestablish business continuity literally overnight. We saw flight to quality where customers leaned on technology partners who had the flexibility and agility to provide solutions at scale across all of their IT needs and deliver services quickly and globally.

Consider New York City as an example. Our team helped their department in information technology and communication support the city's health care professionals and first responders, securing critical technology ranging from PCs to servers, storage and VMware, all in a centralized manner with swift implementation. As governments issued their shelter-in-place orders, no one was at receiving docks to get the needed technology. So we shipped notebooks, monitors and accessories directly to people's homes or we set up drive-throughs with proper social distancing and PPE in place to get the people equipment they needed to be productive and connected.

We rolled out our payment flexibility program, so customers can access the technology they need now, scale the usage of IT and preserve cash. This program includes 0% interest rates and up to 180-day payment deferral. And we are also making $9 billion in financing available this year. Plus, we added a 1-year term to our Dell Technologies On Demand offerings, which can be used with Dell Technologies cloud platform to rapidly consume hybrid cloud infrastructure.

And third, the business. We saw unprecedented demand dynamics over the course of the quarter. And though we face an uncertain environment as we look ahead and made these areas of prudent in-quarter decisions to manage cost and liquidity, we did so with the intent to accelerate through and beyond this crisis. All actions were in line with our strategy which remains unchanged. We are focused on gaining share, integrating and innovating across our portfolio and creating long-term value for all stakeholders. Despite uncertainty, we are in a position of strength, we have a unique opportunity to perform differentially, no matter the environment.

Let me move to a few operational comments for the first quarter. To get more specific on demand, we saw high single-digit order growth for commercial client and double-digit orders growth for notebooks. For example, orders growth for our Latitude notebook family grew 37% year-over-year and 45% sequentially. This growth came primarily from large commercial and government customers, which did put some pressure on profitability. We were the only vendor in the top 5 to have positive year-over-year PC unit growth for calendar Q1, according to IDC. We had our highest share position to date for worldwide PCs at 19.4%. And in commercial PCs, Dell move to #2 worldwide with 26.2% unit share.

As customers shifted spend to remote solutions and BCRP, they did so at the expense of infrastructure spending, resulting in lower ISG demand, but there were some highlights. While down, we saw improved server performance and expect to gain unit and revenue share for mainstream servers when IDC x86 results come out next month. And though we expect our external storage share to be roughly flat in calendar Q1, we expect share growth in high-end, purpose-built back-up appliances and unstructured arrays.

From a customer standpoint, we saw order strength in banking and financial services, government, health care and life sciences, each up 15% to 20% in Q1. We also saw very strong double-digit demand in consumer direct and solid high single-digit demand in small business. For small and medium business, however, demand did soften as the quarter progressed given the shelter-in-place orders of various governments. We saw demand drop over the quarter in the most impacted sectors including retail, manufacturing, energy and transportation.

Throughout this time, we have been advantaged by our agility, our breadth and our scale. We can quickly pivot and lean into the opportunities that exist with unmatched capabilities, including our direct global sales force, flexible consumption models and online leadership. These are truly differentiators for us.

Our teams had to be nimble and quickly embrace a new sales motion. We successfully pivoted to all virtual engagements with hundreds of thousands of virtual customer interactions in the quarter. And our e-commerce business sets us apart. In April, site visits to delltechnologies.com were up 77% driven largely by interest in remote work offerings and learnings ranging from PC solutions and services, quick-start bundles for VDI and SD-WAN for home access to take the stress off corporate networks.

Another strength is our global supply chain. Its scale and resiliency, which enable the needed flexibility to manage through the many different challenges over the past several years. We've used our global footprint and partnerships to fulfill orders as quickly as possible, exploring all sourcing, production and logistics strategies to meet our customers' needs. We continue to drive innovation and excellence in engineering with a largely remote workforce. Our engineers and product teams delivered several critical solutions in the past couple of months, all from home.

PowerStore is now shipping and is a step-level improvement in the market. It's up to 7x faster and 3x more responsive than our previous arrays. The feedback from our customers has been fantastic. And we are seeing unprecedented interest. The pipeline is building. This is a game changer for us in mid-range storage.

Last week, we launched several Dell Technologies Cloud advancements including Dell Technologies Cloud OneFS for Google Cloud. This combines scalability and performance of Isilon with Google Cloud's analytics and compute services to help customers simplify management of private and public cloud storage.

And in March, VMware introduced new software solutions that place us squarely at the center of our customers' multi-cloud world. The releases featured VMware Tanzu, a portfolio of products and services that transform the way enterprises build, run and manage application software. Also included were major updates to the core portfolio across VMware Cloud Foundation, including the largest evolution of vSphere in a decade, NSX-T, vSAN and vRealize Operations Cloud, which continue to bring innovation to our leading infrastructure stack that powers on-premise environment and public clouds across the world. These are just a few examples of how we're delivering on our customers' needs and executing our strategy.

As the world starts to pivot from response to recovery, I see it in 3 phases. Phase 1, the rapid response. This phase is largely behind us. Organizations have moved to work from home. Kids are learning from home, and we are seeing hopeful signs, including possible vaccine.

Phase 2, the new normal. As a society, we are realizing that work isn't a destination, rather it's something many of us can do anywhere, anytime. We are solving customer issues remotely with great success, and customer conversations have changed from what do we do now to how do we plan for the future.

And then into the third phase, new opportunities. High volumes of virtual, online businesses, an accelerated digital existence, making an automated, intelligent and secure supply chain paramount to business continuity. Artificial intelligence and machine learning play a big role to glean meaningful business insights from the vast amount of data this digital existence will create.

Dell Technologies is uniquely positioned to win in this evolving backdrop, and our Q1 performance again highlights our differentiation and the resiliency.

So to summarize, our breadth of solutions, our scale and our strength have never been more important, with customers increasingly turning to us as a deep and trusted partner when they need help most. Thanks to our customers and our incredible team efforts, we've been able to execute our strategy and emerge from this in an even stronger competitive position. This pandemic has challenged -- or excuse me, this pandemic has changed everything with unprecedented speed and scope, billions of people's lives upended in a matter of weeks. But there is also tremendous innovation and collaboration, heroism and humanity. There is a lot to be hopeful for, and there's a lot of opportunity ahead.

Now I'll turn it over to Tom for a deeper look at our financials.

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

Thanks, Jeff. The global effects of COVID-19 created a challenging environment to navigate, but I am proud of our team members and partners around the globe. They continue to support our customers and many frontline organizations battling this pandemic while also managing their own personal needs and responsibilities.

Demand was strong for work- and learn-from-home solutions and business continuity solutions, especially during the first 2 months of the quarter. Revenue for the first quarter was $21.9 billion, which was flat year-over-year. FX movement, particularly in the euro zone, Brazil and China, created a headwind this quarter, impacting growth by approximately 170 basis points. Gross margin was down 1% to $7.3 billion or 33.4% of revenue. Overall, gross margin was lower due to the strong CSG performance along with the mix shift to large commercial and government customers that Jeff mentioned.

Given the environment, we proactively took cost actions during the quarter to protect and position the company. These measures included a global hiring freeze, reduction in consulting and contractor costs, global travel restrictions and, most recently, the decision to suspend our 401(k) match. The majority of our costs are variable, allowing us to quickly adjust. Our rapid cost actions helped drive operating expenses down 1% year-over-year and down 8% sequentially to $5.2 billion. We continue to evaluate the business and are prepared to take additional actions as necessary.

Operating income was down 2% to $2.2 billion or 9.8% of revenue. Profitability was slightly lower as we managed through multiple impacts in the quarter. Supply chain-related costs for certain components and expedite costs for moving products in this environment were higher in the quarter. We were also impacted by mix dynamics related to strong demand for work from home, a higher mix of large commercial and government transactions and the impacts from a strong dollar even as we adjusted pricing.

Profitability was also impacted by the application of the new Current Expected Credit Loss, or CECL, accounting standard as we recorded increased receivable reserves of approximately $100 million. Our consolidated net income was $1.1 billion, down 5%; and EPS was $1.34, down 8%. Adjusted EBITDA was $2.6 billion or 11.9% of revenue and $11.8 billion for the trailing 12 months.

Shifting to our business unit results. Client Solutions Group delivered revenue of $11.1 billion, up 2%. Commercial revenue was $8.6 billion, up 4%, including double-digit order growth in commercial notebooks and mobile workstations. Consumer revenue was $2.5 billion, down 5% as we shifted supply to direct from retail. Our consumer direct orders were up nearly 40%, while consumer retail orders were down 37%.

The strong demand for remote work and learning solutions drove the strong commercial client and notebook performance. The team did a nice job working through supply chain impacts. We saw extended lead times, particularly for mobile solutions, but these are now turning back to more normal levels.

CSG operating income was $592 million or 5.3% of revenue. CSG profitability was impacted by a higher mix of large commercial and government customers and less deflationary component costs compared to a year ago.

ISG revenue was $7.6 billion, down 8%. Storage revenue was $3.8 billion, down 5%. We saw double-digit demand growth in VxRail and in our high-end PowerMax solution and solid demand in unstructured storage, offset by softness in other areas of core storage.

Servers and networking revenue was $3.8 billion, down 10%. However, we did see improved orders results for mainstream servers and expect to gain share in this category.

ISG operating income was $732 million or 9.7% of revenue, which was down 60 basis points. The first quarter is typically our lightest quarter for ISG, particularly storage as it historically builds throughout the year.

Our VMware business unit had a strong quarter, delivering revenue of $2.8 billion, up 12% and operating income of $773 million or 28.1% of revenue. Based on VMware's stand-alone results, subscription and as a service revenue grew 39%, with the strongest revenue performance from end user computing, Carbon Black and VeloCloud offerings as well as VMware Cloud on AWS, which had a triple-digit revenue growth rate. Both NSX and vSAN product bookings grew over 20%.

Turning to our balance sheet and capital structure. We ended the quarter with $13.2 billion of cash and investments. This includes the cash from the $2.25 billion of notes issued by Dell Technologies and $2 billion issued by VMware in the first quarter. As announced, the primary use of proceeds from these offerings is the repayment of debt. Earlier this month, VMware did pay down $1.25 billion of the note due in August of 2020. And at the Dell Tech level, we expect to use the $2.25 billion in proceeds to pay down debt in the coming months.

Our total debt balance ended the quarter at $57.3 billion, and core debt ended the quarter at $36.6 billion. Core debt excludes $9.1 billion of DFS-related debt, the majority of which is nonrecourse to the company and is backed by high-quality receivables. We are focused on ensuring DFS is properly capitalized to support our customers as evidenced by the $1.1 billion asset-backed fixed-term securitization we did in the quarter.

We are effectively managing working capital in this challenging environment. We had a use of cash flow from operations of approximately $800 million, impacted by our normal annual bonus payout, P&L seasonality and approximately $900 million of COVID impact to working capital, principally related to timing of accounts receivable collections and higher inventory, which we expect to normalize in the coming quarters.

Adjusted free cash flow in Q1 was a negative $1.2 billion coming off of a very strong fourth quarter. Our first quarter tends to be our weakest in regards to cash generation given normal seasonality impacts. On a trailing 12-month basis, adjusted free cash flow was $7.6 billion.

We have suspended the share repurchase program announced on the Q4 call. In the first quarter, we did repurchase approximately 6 million shares for approximately $240 million.

Our liquidity position is strong with excess cash on the balance sheet and $5.5 billion of undrawn revolver capacity after repaying a partial draw in Q1. We are comfortable with our capital structure, including our ability to support DFS growth. We have worked to smooth out our debt maturity towers with only $600 million due this June, plus approximately $200 million of debt amortization for the year.

As I reflect on current results and future opportunities, I'm reminded that we are a different company than we were just 3 years ago and most certainly different than we were in any of the prior economic slowdowns. Today, we have assembled a broad set of capabilities that are differentiated within the industry and drive an attractive financial model.

We have broad diversification across our portfolio of software and service solutions, hybrid cloud technologies and traditional infrastructure, all of which are multibillion-dollar businesses. And similarly, we have a broad diversification across our customer base, which allows us a view to customer behavior and demand trends given our direct model. We have a software and security business that's more than $15 billion with strong as a service and recurring revenue characteristics. This creates a stable revenue base, particularly during volatile times.

Our total deferred revenue is $27.6 billion, up 14% year-over-year. Our recurring revenue, which includes deferred revenue amortization, utility and as a service models, is now approximately $6 billion a quarter, up 16% year-over-year. We are focused on our commitment to maximize long-term value creation for all aligned shareholders by growing faster than competitors, growing EPS faster than revenue and generating strong cash flow over time.

Now let me touch on how we're thinking about the rest of the year. As you know, we withdrew previously issued fiscal '21 financial guidance during the first quarter. We saw strong demand in February and March, but we did see demand soften in the last month of the quarter given our direct model and end-user relationships. As a result, we expect Q2 revenue to be seasonally lower than prior years, which has typically been up to 6% to 8% sequentially from the first quarter.

The latest data is pointing to a challenging environment, with global GDP expected to decline between 3% to 5% in 2020; and IT spending, excluding telecom, to be down 5% to 10%. While it's difficult to predict the shape of the slowdown and the recovery and the resultant impact on IT spending, our job is to prudently manage our business so that we are in a strong position on the other side of this crisis.

We remain committed to delevering and achieving investment-grade ratings. Our intent remains to reduce core debt by approximately $5.5 billion in fiscal '21, in addition to the debt repayment associated with the Q1 issuance, though this may be influenced by the macro and related business performance.

So to close, these are unprecedented times but Dell Technologies is well positioned. We are moving forward, winning the consolidation, integrating and innovating across Dell Technologies to create the future of technology infrastructure and creating long-term value for all stakeholders. This is our strategy and focus. And in a world that is increasingly looking for resiliency, reliability and innovation, we are uniquely positioned to emerge from this time as the essential technology company for the data era.

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

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.

QUESTIONS AND ANSWERS

Operator

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

provide that type of capability.

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

Just real quickly, kind of thinking about the demand environment, particularly around the server space. Can you talk about how you saw demand pull forward in this last quarter, and what maybe the pipeline and activity looks like thus far in May and how you're currently seeing and characterizing the component pricing environment?

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

Sure. Aaron, a couple of things. If I look at the server environment, one of the things that you'll see from us is -- or that we saw during the quarter, I should say, is our P&L performance was down minus 10% as you saw and we commented on. But from an order space and the mainstream space, it was minus 1%. From our perspective, we saw an improvement from last year's numbers or last year's performance to Q1. We saw demand in large business and in government for our server products, and that demand was all throughout the quarter.

The same segments that we mentioned earlier, the small business and the medium business, they were impacted in the third month, as Tom and I referenced earlier. And then I think lastly, you had the financial services side, the health care side, the life sciences side have demand throughout the quarter as well that we saw. I wouldn't say we saw any indications, Tom, of a pull-in of demand. We certainly saw, in the demand and the demand strength in the areas that I referenced, the sequential improvement of our business. I'll let Tom add some color to that, and then I'll ask -- answer about the cost environment.

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

Yes. Aaron, it's Tom. I would echo what Jeff said. I wouldn't characterize it as pull-in or anything of that. Obviously, this was more a quarter of the work-from-home, learn-from-home framework and customer focus. And so as we said on our talking points, there was -- we did see overall weakness or softness in ISG more than we would have anticipated coming into the quarter. I would also add that Jeff's comment on the minus 1% from a demand perspective is that's a global demand ex China. So I just want to make sure you're clear on that.

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

For servers.

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

For servers, yes, for servers. And -- but look, I think the team navigated well. The environment from a pricing perspective was, I'll say, slightly more rational than what we've seen in the past but still very competitive. And I thought the team did a nice job sort of navigating through the demand environment this quarter. And then, Jeff, you want to comment on component cost?

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

Yes. On a component cost environment, we saw Q1 deflationary. Our outlook is Q2 moves to an inflationary environment, and we think it's inflationary for the balance of the year.

Operator

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

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

I just wanted to follow up on the linearity question. What did you -- what have you seen so far in May. And it sounds like you're planning for demand to get worse. You highlighted that spending is kind of correlated with GDP. GDP's going to be down. IT spend is going to be down 5% to 10%. That's how much it was down during the financial crisis, and your revenues fell more than 10% during that period. Is that the framework that you're thinking about now? Or are the changes to your business that you highlight suggest that you should do better? So I guess one really long-winded question around linearity around April and May. And then if I interpret your comments, it sounds like you actually think growth, particularly in enterprise, could get worse before it gets better given your outlook on GDP and IT spend.

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

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.

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

Well, hey, Toni, it's Tom. Let me start. I mean we're obviously not immune to the global macro environment. And what we tried to do is give you a perspective on what we saw for demand as we came through the quarter. It's really early in May. So I don't really want to comment on the demand trends in May at this point just given where we are in the quarter. But look, if you look at what IDC is forecasting in terms of storage and server growth, it's clearly softening or soft -- or weaker in Q2. They do forecast it to get stronger in the back half of the year. And then actually, back to positive growth in calendar '21 as of right now with their forecast.

So we're trying to be prudent as we think our way through the framework that we're navigating through businesses or -- and customers across the globe are just coming back to work, in some instances. In other instances, they're still in a work-from-home environment. And so as we think about it, your comment around the financial crisis of 2008, 2009, I get your point, we are a different company from then until now given our broad set of diversified solutions, our recurring revenue streams. But look, I mean, I think the guidance we tried to give you was to give you some perspective on how we thought about the demand environment as we navigate through the through the second quarter. And then, Jeff, do you want to comment maybe?

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

One thing to add to that, Tom, I think whatever that demand environment is, the way we're running the business is driving its relative share, taking share on how the market segments perform. We think we've done that in Q1. That will be certainly the task we have at hand in Q2, running the business to take relative share in those segments that we operate in.

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, Tom, I heard you, towards the end of your commentary, talk about July quarter being up less than 6% to 8%, that's the historical number, I think. Do I read this as it should still be up, but perhaps a lot more muted versus what you've seen historically? Is that the right way to interpret what you said? And then in terms of margins, maybe how do we think about op margins and free cash flow? And specifically, is the expectation for fiscal '21 margins being comparable to fiscal '19, is that the right way to think about it even today?

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

Well, this is Tom. So look, again, I'm not going to parse the guidance. I would tell you that we do expect -- the guidance we gave you is our best view right now on how we think about the quarter. From a margin perspective, I would tell you that, look, part of this is going to depend upon what happens with the component costs as we go through the year and what the pricing environment and demand environment looks like. Right now, we see the component cost environment as inflationary as we step through the rest of the year. We'll see how that holds up relative to the overall demand environment and whether that changes.

And then the other part of the margin framework is going to just be the mix dynamic within the business. And so as of right now, I think that our margin dynamics, as we go forward, will have sort of those seasonal impacts that we typically have had given that, as you go through the year, ISG business has typically ramped with the strength in Q4. So you got to think about that in contemplation to the margin dynamics that we're looking at. So I mean, I think -- again, I'm not going to get into specifics on how we see Q2 other than to tell you that we do expect it to be a little bit softer than historical norms. And so that's how we're thinking about the business right now from a P&L revenue perspective.

Operator

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

Wamsi Mohan - BofA Merrill Lynch, Research Division - Director

Tom, how should we think about your OpEx trajectory? You noted a bunch of initiatives around cost saves. Can you maybe help us size the totality of that magnitude of cost-saving efforts? And how much has sort of already flowed through in the quarter, if any? And how much is left to be realized?

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

Yes. Wamsi, the way I would think about it is, look, what we're trying to do is to protect the -- as I think about liquidity, protect the business; make prudent, thoughtful moves relative to the uncertainty in the demand environment while making sure that we're taking care of our customers and our business and our team members. And so the actions today around global hiring freeze, reduction of consulting spend and all of those other items that I listed had positive impact in Q1, but it clearly wasn't a full quarter impact. As you think about -- most of those things were put into place mid- to late March, all into early April. And so you would expect those OpEx savings to build as you go through the year. What we're trying to make sure of is that we protect also the EBITDA generation of the company at a consolidated level.

And so while I'm not going to frame or give you the overall impact of the OpEx levers that we're pulling, what I want to convey is that we want to be thoughtful stewards of the business, make sure we position the business properly. And protect liquidity and cash while also making sure that we make the necessary investments to position the company properly coming out of this crisis. And so I feel good about the -- these are hard decisions, but I think we've made the appropriate decisions with what we know today. And we'll continue to look at the business, and we have available -- other available levers if we need it.

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

And those decisions have protected the things that we've invested in: capacity and coverage; the build-out of our storage, R&D and innovation, which is -- that's showcased now with our PowerStore launch on May 5. And it is aligned with our strategy, which is to consolidate the core businesses that we operate in and to drive innovation and integration across the Dell Technologies companies to build differentiated solutions

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Operator

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

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

Jeff, Dell clearly managed the supply chain better than peers. I'd love to hear how you think that opened up any cross-selling opportunities across the portfolio. And do you think the share gains that you saw in the first quarter are sustainable even as competitors catch up with their own backlog and supply chain disruption?

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

Thanks for the question, Katy. Look, one of the things that we saw during the quarter, which I think is representative of the scale and capability of this company, I coined it in our remarks around this flight to quality. We saw customers really move to partners who could provide the end-to-end capabilities and services they need across all ranges of products. We saw that from smaller companies to the largest multinational companies around the globe. And that flight to quality, I think, served us well. It really reinforces the breadth of our portfolio and then the superior execution of our supply chain. We were able to navigate the very difficult environment, I think, quite well: the speed at which we made decisions and pivoting supply and pivoting to facilities that we can operate in; the assessments that we made into our second level and third level of the supply chain component base, pivoting quickly. I think it's demonstrated in our Q1 PC performance. We were the only OEM to grow in Q1. We think we'll gain share, as we mentioned, in servers and in units and revenue in mainstream.

And I think that continues into Q2 and through the year. I think that is a source of differentiation for us. The things that we've done to position our supply chain in a very differentiated way where we've taken this notion of digital supply chain and the very digital transformation that we talk about across lots of our customers and taking it to heart inside our supply chain; where we've automated across our planning, our procurement, manufacturing and logistics side; we have a data transparency where we can look at an end-to-end visibility of how our supply chain is performing; and then we've introduced predictive analytics that allow us to anticipate the movements we've made and move very quickly. And I think that again served us well. I think that's sustainable. I think it's differentiated. And I believe that will serve all of our businesses quite well going forward.

Operator

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

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

I understand it's tough to predict the future in terms of future revenue trends, but I do want to harp back the OpEx line, a line that you guys have good control over. For the latest quarter, it was down. Total operating expense is down about 1% year-on-year. I'm just wondering whether that leverage that you guys are generating your model can be sustained through the rest of the year and your sense of where OpEx trends are for the full year.

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

Jeriel, it's Tom. Look, I do think that we -- obviously, OpEx is something that we can control and are being very thoughtful about it. I do think that there is leverage in the P&L related to OpEx. The actions that we have taken to date, along with the recent decision on the 401(k) match suspension, we're obviously modeling different scenarios around demand trends and the impacts of the P&L within ranges. And we feel good about the actions to date relative to ensuring that we're protecting the liquidity and EBITDA generation for the -- with what we know today. So I think the leverage is there. I think we'll continue to see efficiency in the P&L. And if the demand environment turns out to be very different than how we're thinking about it, then we'll take the appropriate actions to position the business properly. We're making sure that we're serving our customers while preserving and protecting the capabilities of the business. So Jeff, I don't know if you'd add anything, but...

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

Spot on.

Operator

We'll take our next question from Rod Hall with Goldman Sachs.

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

Tom, I just wanted to see if you could dig into the working capital change from COVID, the $900 million that you called out, or the cash flow change to be more specific. I know you're saying accounts receivable as well as inventory, and we see the $100 million accounting change on the receivables. But just wondering how -- did the receivables change become more of a structural thing as you allow people to pay a little bit slower through the year? Or is that more of a one-off? And then on the inventory, is that components? Can you dig into the composition of that inventory at all for us?

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

Rod, let me start, and then I'll let Tyler also jump in. On the COVID-related items, I wanted to make sure we called out just that impact of working capital because it was unusual this quarter. And we saw that principally in our collections activity and in the inventory. And from our perspective, I think the team did a really nice job of being proactive, reaching out to customers, capturing, quite frankly, where were they in their disbursing cycles given the fact that many of them had been working from home, their businesses have shut down or, in fact, many of the government agencies that we were dealing with were in a work-from-home situation, which did not allow them to process and disburse. And so that's a long-winded way of saying I think we did a pretty good job of putting our hands around what we thought sort of the receivable dynamics look like as we ended the quarter.

I don't expect it to be structural. And in fact, we made good progress on that $600 million in May. But I do expect that we'll continue to see some impact of COVID. I mean I think it'd be unrealistic to think that we won't. I don't expect that to turn into a significant bad debt dynamic, but I do think it turns into a time of slower payment. And we saw a little bit with our aging creep as we finished the quarter. So it's not structural, in my opinion, on the receivables side. And then on the inventory side, it was more around having supply available for -- to make sure that we satisfied our customers' demand, and that we'll work our way through that as we go through the second quarter.

And then, Tyler, maybe you could address maybe the broader work -- the cash question that really Rod's asking in the sense of cash flow generation and how we think about that.

Tyler Johnson Dell Technologies Inc. - Senior VP & Treasurer

Yes. I mean, look, I think Tom said it in terms of the working capital impact, and we thought it was important to call that out as you are thinking about our debt pay down, the $5.5 billion that we're still focused on paying down, right? So look, I think the good news is, from a cash perspective, we started the year with excess cash. If you focus more on full year cash versus just a quarter of cash, we'll get that working capital benefit back. Obviously, we have RSA. The proceeds will come in later in the year. So then if you look at what's left over and the free cash flow generation necessary to pay down that debt, we feel good where we are. So I think that was really the main point of really calling that out.

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

Yes. And then Rod, remember that Q1 is seasonally our lowest cash-generation quarter, right? And it has historically been that way given some of the payouts related to bonus, the P&L -- or the revenues typically sequentially down Q4 to Q1, which we saw again this quarter. And we generally build cash as we go through the year. And so there's some seasonality dynamics that you need to think about as well from a cash generation perspective.

Tyler Johnson Dell Technologies Inc. - Senior VP & Treasurer

And maybe just one final point, as you're thinking about looking at the year-over-year compare. Just as a reminder, as we were going into Q1 last year. We had talked about working capital improvements, and we saw a pretty dramatic benefit from working capital in Q1 last year. So obviously, we're seeing a little bit of the opposite this year. So that definitely impacts the year-over-year compare.

Operator

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

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

Jeff, since the PowerStore is now out, can you talk a bit about initial customer feedback, how you think it's going to roll through, share opportunity, anything you can give us?

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

Sure. Thanks for the opportunity to talk about PowerStore, Shannon. We're pretty excited about it. The reception has exceeded our high expectations. We've seen some really great reviews, some assessments of where the product is on a relative basis. The one that stands out in my mind is -- it's being touted as the most important development in data storage hardware, setting the new benchmark for the industry. The pipeline is growing rapidly. We have over 70% of our storage specialists that already have had pipeline for PowerStore. And recall, we just started -- we turned on the sales force in April, started shipping in April. We formally launched on May 5, and 70% of our storage specialists already have pipeline.

For me, it really indicates that this demand that we're seeing from our customers that the product is very differentiated. We're excited with what we have built. There isn't anything like it in the marketplace. It has 3 main features, in my mind, that differentiates it from the rest of the marketplace. We've said time and time again, you've heard me talk about this in our sessions, it's a data-centric architecture. We clearly have built this around a container-based architecture that optimizes system performance, scalability and storage efficiency. For us, it's got 7x the IOPS and 3x the lower latency than our previous product, which just makes it the performance leader in the marketplace today. It does scale out, scale up, ultimate flexibility while guaranteeing a 4:1 data-to-reduction rate. We've built in automation into this or intelligence, so we have an AI engine in, very similar to what we've done on the PowerMax range of products.

And then lastly, we think, that what's really going to drive it and the biggest form of differentiation is this flexible architecture and the adaptability and to really run applications on the array itself. You take that, and you put the wrap around the -- or wrap around it our future-proof offer around anytime upgrade, seamless migration; you capture that with the broad end-to-end portfolio that we have, that we now have the entire portfolio simplified, modernized. Next month, Unstructured. NEXT, the last of the powering up of the portfolio will be delivered. It has a -- we have a second-to-none position in external storage in the marketplace. And then if I take another couple of minutes, you add to what we've done with Dell Technology On Demand, the ability to work this as a service and various consumption models. We have a very, very modern way to consume and digest IT with the very best products in the marketplace. So we're pretty excited about the prospects to regain midrange share.

Operator

We'll take our next question from Jeff Kvaal with Nomura.

Jeffrey Kvaal - Nomura Securities Co. Ltd., Research Division - MD of Communications

I certainly appreciate your caution about offering much quantitative view about where business may be headed in the upcoming quarter. That makes sense. I think maybe another way to help guide us and understand what we might expect from you might be to help us with the trajectory of the business through February and March, and then compare that a little bit more specifically to April. If you're able to share with us anything about the softness that you previously characterized, I would certainly be grateful.

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

Jeff, it's Tom. So look, we are trying to be, obviously, as transparent as we think is appropriate. I would tell you that we saw the quarter started like most normal quarters do and then accelerated on us sort of in the last week of February, early March for a period of 2 or 3 to 4 weeks where, once the COVID crisis literally hit Europe and North America and accelerated, the various companies and governments and businesses around the globe made the decisions to shut down and work from home. That's generally where we saw the acceleration in our demand environment, principally in our CSG business. So there was a pretty significant surge of demand in that month of March, I'll say that, generally from fulfilling work-from-home orders, fulfilling learn from -- distance learning, those dynamics. As we stepped into April, what we saw was we got through that initial surge where, quite frankly, companies were just trying to get people up and operating from a work-from-home environment. And the focus then continued to be on how do you optimize that environment, and that will continue. But what we saw was, again, the CSG surge sort of softened a little bit in April.

And then the infrastructure spend, there's typical seasonality with linearity within a quarter where it tends to ramp quite a bit in April. It did ramp in April but not at historical norms. And so those are sort of the dynamics we saw as we went through the quarter. And so our comments to you today are just directed at we don't have great visibility into what the demand profile looks like as we go through the quarter and into the back half of the year. We think it's -- we do think, as we think about seasonality of our business and normal sequentials that as we look at it today is we don't believe that the historical sequentials, from a revenue perspective, Q1 to Q2, are going to hold. And we want you to be a bit thoughtful about how you think about that, right? So that's our comment to you or that's our guidance to you. And we'll continue to run the business prudently. But Jeff, I don't know if you'd add anything on the demand environment that I just sort of highlighted, but...

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

Not in the near term, but I think you hit all the high points, Tom. What would extend is we still see digital transformation occurring, in fact, accelerating through and after this crisis. We see a movement to hybrid multi-cloud continuing to accelerate through and after this crisis. We continue to see this path towards a fourth industrial revolution where we see the immense amount of data coming and the need for more automation, the more artificial intelligence, the more machine learning, more autonomous outcomes as a result of that. I think in the work from home that Tom just mentioned, again, I can't speak to what the demand will be next quarter, we don't know. What I do know is this has fundamentally changed how people work. And as a result of that, changing how people do the work in a world where people do work, it's going to create tremendous opportunity.

We think there'll be opportunity in how we educate our youth going forward. We think there's going to be changes in the way of how medicine will be provided or health care will be provided in the future. We think about how people are working today where you have a PC installed base of 1.7 billion units. You have roughly half of those units incapable of running a Zoom or a Skype or a Teams session of any high quality. Those are all opportunities in time that bode well long term. What Tom said about the near term was spot-on. But the characteristics of technology, the need for technology bode very well.

Operator

We'll take our final question from Jim Suva with Citigroup.

Jim Suva - Citigroup Inc, Research Division - MD & Research Analyst

With that being said, the capital program that you've laid out, goal to get investment rating or the metrics of it, it seems like it isn't changed, but then you removed or suspended your stock buyback. Can you help us understand about the timing? It sounds like you'd mentioned $5.5 billion debt pay down but then depend upon the markets and the stock buyback is suspended. Can you just kind of talk about, overall, what are the features you're looking at or variables to turn back on the stock buyback program? And the $5.5 billion, is there some hesitancy now behind it or just capital deployment overall returns?

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

Jim, it's Tom, and I'll let Tyler jump in. Look, our intention around investment grade and the march back to investment grade hasn't changed. Obviously, again, we're trying to be thoughtful. We still are committed to the $5.5 billion. There is some dependency on how the business performs for the remainder of the year, as you might imagine, given cash generation. But in terms of how we're thinking about capital usage or capital use and how we want to structure the capital framework, nothing has really changed. We did suspend our share buyback. We thought that was prudent just given the uncertainty in the demand environment and wanting to make sure we preserved our liquidity and that we -- where we focus liquidity, we focus it on debt pay down as a principal source. But look, I don't think anything has changed from our perspective. But you're hearing us say, hey, look, we're going to have to navigate through some uncertainty as we come through the coming quarters. And we -- but we are committed to being back to investment grade. And as you and I have talked, Jim, that's going to be the decision of the various rating agencies. It's our job to sort of put the business in a position where they can make that decision.

Tyler Johnson Dell Technologies Inc. - Senior VP & Treasurer

Yes. I mean, look, I'm not sure I have more to add other than there's no hesitancy in terms of the commitment, and we continue to have those conversations with the rating agencies. We just obviously have to see kind of how the business evolves over the coming quarters. But as I said earlier, at this point, I feel good about our ability to pay down the $5.5 billion.

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

Yes. Jim, remember, Tyler, earlier in the call, sort of outlined how we were thinking about cash generation and with the RSA sale and some of the other inputs of cash. I mean the $5.5 billion seems -- looks realistic to us at this point, and we'll just have to -- we'll work towards -- that's the framework for the year.

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

All right. Thanks, Jim. Thanks for the question, and thanks, everyone, for joining us. Just a quick reminder, next week, Michael will be virtually participating in the Bank of America Technology Conference, and he will be doing a keynote at 12:35 Central Daylight Time. We've also got our leaders of the various segments of our business -- solution segments of our business participating in events throughout the June time frame. We've also got Tom and Jeff in events in mid-month and later this month. So we look forward to connecting with all of you virtually in a number of activities throughout the June time frame. Thanks again.

Operator

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