Bank of America Global Technology Conference
Dell Technologies

June 06, 2023
09:20 PM PST

Wamsi: Thank you for joining us here at the Bank of America Global Technology Conference. I'm Wamsi Mohan and I cover IT Hardware here for BofA. Delighted to have Dell with us today. We have Sam Burd who is President of CSG. He's been in this role since 2018. Sam, thank you so much for being here. Welcome.

Sam: Yeah, thank you for having me Wamsi.

Wamsi: Before we start I need to read the Safe Harbor here on behalf of Dell. Dell Technology statements related to future results and events and forward-looking statements based on the company's current expectations, actual results and events could defer materially due to a number of risks and uncertainties, including those discussed in the company's SEC filings. The company assumes no obligation to update its forward-looking statements.

With that out of the way, Sam, we know you've been at Dell for a while. Would you mind giving a quick background and description of your role for those who have not had the chance to interact with you before?

Sam: Sure. I lead our Client Solutions Group, a $55 billion business inside Dell, responsible for our PCs, displays, peripherals, services around those products. My counterpart is the Infrastructure Solutions Group and together we're the big parts of Dell.

As you said, I've been at Dell, joined Dell in 1999. Have worked in the US, in Europe and Asia for Dell in Sales and Marketing roles, in Product Leadership roles, in both our PC business and our Infrastructure business. Enjoy it, passionate about the opportunity that we have and had, Wamsi, in those roles also had a really good first-hand seat to seeing the capabilities we're able to deliver to our customers, that I know we'll get to talk about today that are pretty unique and differentiated.

Wamsi: So you've definitely seen a lot of cycles, so that be interesting to get your perspective here. First, maybe to kick it off right on the PC addressable market. In some ways PCs seem to be reaching a bottom. What are your expectations for calendar 23 and the PC market longer term?

Sam: We have seen the current PC demand is certainly being impacted by the macroenvironment. When you look at this year, we've called about 250 million, or thereabout, units in the PC space. If you look beyond this year, we see some really good secular trends in the PC industry. Every CIO that I

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talk to has experience in PC devices on their agenda. They know that matters to their employees for productivity. It matters in this work-from-anywhere world that we're in. They need to get great modern, powerful systems in the hands of their employees.

You look at the install base that we have now and it's the largest install base that we've had in recent history in the PC industry. Over the last couple years, Wamsi, we've seen a shift to notebooks from desktops. And notebooks get refreshed faster. We last had a surge of refresh about 3.5 years ago, and buying 3.5 years ago, which start being in the refresh cycle. I'm seeing enterprises move to Windows 11 for the benefits of security and productivity.

So you look at the importance of PCs to CIOs and getting work done. You look at those kind of refresh characteristics and the install base that we have. All those are really good dynamics for demand over the long haul. The real question is this kind of tempering of that buying with the economic environment that we're in today.

Wamsi: Would you be willing to call a bottom and theses(?) here?

Sam: What we would more say is we have seen we're bumping along the bottom. So if I contrast Q1 to the end of last year, we saw the cyclicality or the sequentials getting worse as we thought about the second half of last year. And we called that out very early in the space when we saw the kind of demand environment changing.

We see now that we're probably grounded and kind of at what we expect to be normal sequentials in this business. We see some positive signs. So we talked about small and medium businesses, usually the first places we see recovery. We had better demand in the last quarter in those spaces. But to really get off the bottom and call and see any kind of recovery, what we need to see is a recovery in large enterprise, kind of large bid spending. And we haven't yet seen that happen.

Wamsi: How would you say the replacement cycle for PCs is tracking, particularly if you could differentiate between commercial and consumer? And maybe even desktop and notebook would be helpful.

Sam: I think your splits are the right way to look at it. I would also say it's really important to think about the different units inside the PC industry. And we say all units are not created equal. So we are – when we think about the spaces we're targeting, we are more in the commercial spaces, over 80% of our revenue in this last quarter. We see demand more durable in the commercial space. We saw that pre-COVID; we saw that during COVID; we expect that post-COVID.

Refresh cycles in that space, there are more notebooks now than there were desktops. Customers and CIOs need to put great PCs in the hands of their users. So we expect those refresh cycle to continue in commercial. And the challenge I kind of describe that I see from CIOs I meet with today, they're going, I've got a challenged economic environment. My CFO wants me to be cautious on spending. At the same time I know if I do that, I'm going to be causing issues with end-user satisfaction and the ability of my business to have people be creative in devices that they contribute in.

So that's the kind of angst they have now on the balance that they're having to work through in exactly when do they refresh systems. But we expect that to continue. We expect demand to be durable in that space; and there's going to be a need to refresh. Today people saw during COVID for productivity applications; in the future -- I'll break the ice on this one -- that you can think about AI, other capabilities that would be on PCs. There's going to be reasons to have powerful great systems in the hands of your users.

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If you think about consumer, I think the dynamics are different in the consumer space. There is a more durable demand in the premium space in gaming. It's people who are really putting those systems to use. It's gamers who are doing and using their systems and want great systems. I think that's very different than mainstream or entry consumer where post-COVID the choice became a PC or a vacation. And we've seen that demand and refresh cycles extend.

We're seeing gaming premium consumer, better refresh cycle, less good on entry consumers, people choose to spend in other places. So we see ourselves in those spaces that have that reason to refresh that has real benefits for the users; and we see that continuing into the future.

Wamsi: Maybe switching just quickly to silicon. We've seen now some of the competition out there come up with their own silicon and incorporating that. How much effort or is there any effort going on in putting non-Intel/AMD chips into PCs?

Sam: Well, first I'd say we view the competition as really good in that space. So we have all kinds of silicon running in our labs. And we're going to put the best options into our systems and build systems around those best options. If you look at the industry, 92% of the world's silicon for CPUs and graphics in kind of PC-class space is openly available in the industry. We're seeing a lot of investment by those companies. We're seeing a lot of innovation.

So I look to the future and I think we'll see more performance in those systems. Whether that's ARM kind of systems or x86 systems, we're going to see the advent of off-load engines and other capability that allow those PCs and systems to go do more. We're going to see an operating system that takes advantage of those capabilities. We'll see better performance per watt. So we look at competition, whether it's in the x86 space or from ARM in that space, as all really good things for our business and for customers that's going to allow us to deliver even better capabilities and better PCs in the future.

Wamsi: Maybe switching gears a little bit to the PC strategy(?). Obviously Dell's got this legacy here and distinguishing itself in the strategy. How would you characterize sort of the PC strategy and portfolio differentiation as you think about the business?

Sam: Well, one thing we talked about, we are very clear and deliberate in where we focus in the PC space. We cover the entire industry with our offerings, but we are unabashedly biased towards commercial. And we have been from 39 years ago when we started, Michael started the business, to today. And we target the premium consumer space. And those are – we talked about a little bit Wamsi, those have more durable consistent demands. And we think there's very good opportunities in those space.

We are unique in going to market with an omnichannel approach; and we have a very strong direct model in our PC business. It allows us to work directly with our customers. It allows us to cover the small/medium business space, it's an attractive space for us. It allows us to sell the right total solution to our customers. So you think about a PC that's geared for the capabilities our customers need, the display's peripheral services around that PC to have a great experience. And we look at net promoter score and we do a really good job of making those customers happy.

We partner that up with channel partners in a world-class channel program, the people who think the same way, and add to that coverage we have in our direct model. Differentiated space that we go after, a unique direct model, an omnichannel model that allows us to sell more to those customers and really keep them happy. And then we put it together with a great product offering that we can get to our customers.

Our engineers passionate about doing about amazing products for our customers. No one wants to be average; no one wants to go home and say hey, we did an average job. Our job is to win and have the best products out there for our customers so their end users or your consumer at home, you have an absolutely amazing experience.

Think about our Alienware systems, our XPS systems, our Latitudes, they are absolutely outstanding; and we back that with a supply chain that has been able to deliver. And I think in the world people are in today, customers are more interested than ever in going can you get me my devices when whatever swings, changes take place in the world? And we showed that over the last couple years. We were very good at delivering. We have a great supply chain that gets things done.

You put all that together, if you then look at our PC business versus competitors, if you take our leading competitor, the business looks very different. They ship about a third more units than us, if you take Q1, and then look at our financial imported revenue, we have a third more revenue than them in our business.

So it's about selling in those higher-value segments. It's about going after places where that demand is durable. Those customers are discriminating and demanding. They're really looking at their return on that higher investment that they're making. And our model let's us go and target those customers and really be successful in delivering what they're looking for. So that's how we're different; and I would say it's a very different approach from our competitors in this space.

Wamsi: On that comment that you just made, would you say that like how much of that is unit centric from a mix perspective versus attach?

Sam: It's a combination of both. So if you look at the units that we're selling, we're selling more high-end systems. So you can think about that as the commercial space versus the average PC out there. One thing we've talked about, if you look at a commercial system versus a Chrome system, like all units not created equal. Like 3.6 more revenue per unit in a commercial device versus a Chrome device.

If you look at same thing in the consumer side, 2.8 times more revenue per unit on a premium consumer device than a mainstream consumer device. So we target these spaces that intrinsically the system is more valuable with the workload and activity that people are going and doing. We do a good job of selling the right system for that environment so customers can be successful. We lead in the workstation space, which is the most valuable space in the PC industry; and then we do exactly what you said Wamsi, we put other capabilities around that.

So you can think about services and a world-class services organization in around 170 countries around the world. So I can get my systems taken care of, help my IT when I need that. We have a leadership position in displays. We have a leadership position in docks. We're building a system in other peripherals that go around the PC. So it's about both of those levers of a more valuable system with all those other components around it that lead to that. It's a really stark difference when you think about that big of difference in units, and then that big of difference in revenue.

Wamsi: And do you see a lot of difference in attach, whether it's direct or whether it's through the channel?

Sam: We see we are best at attach when we sell direct. That's part of that direct model that we have that's unique in our approach that adds to our capability there. And then I would way it depends across our channel partners. We have some – we have a number of very like-minded channel partners. We do better when it's us selling that, but we also have some very good channel partners

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who add coverage and are doing a good job. We work with them around attach and the capabilities that we have. They do that, we do better direct than we do through our channel partners, on average.

Wamsi: Maybe switching gears to the margins a little bit, CSU margins were outstanding last quarter. Why are the margins that good in this environment when pricing is so tough? And I know you guys have stated a longer-term objective 5 to 7. Why is that the right when you've been operating at such high levels?

Sam: The results that we had in Q1 with the operating margins of 7.4% in the business were really outstanding and show the value of our model. Which is we capture cost deflation in the industry first. As we thought about Q1 with stable TRUs, and we talked about a demand environment where there's not a lot of elasticity, you saw that cost deflation then show up in margins in our CSG business.

As we talked about Q2, we see that cost deflation now flowing to our competitors who cleared some of the channel inventory. It takes longer to show up. We expect that there will be more price aggression in the industry; and we've set kind of guidance and direction accordingly, accounting for that.

Now we are being very disciplined in our pricing. We haven't seen a lot of elasticity from pricing, so we think that's a prudent approach. But we've also seen in our experience when you have cost deflation and you have a demand environment that we've talked about where it's a more challenged demand environment, we've tended to see that results in a more pricing aggression in the industry. So we built that into our guidance and assumptions going forward.

And if you look then at the client solutions business, if you go back to the couple years before COVID, FY18, FY19, our operating income was in the 4.9% range. If you look at FY20 through FY23, we were in the 6.8% range. What we have said is we believe we will be at a higher range than we were pre-COVID as things normalize. We've made good structural changes for the business. We've grown in the commercial space. We've grown in small/medium business. We've shifted more of our consumer business to direct. It's a more profitable space for us.

We continue to build this kind of attach capability around the devices. So we expect to be better than that level; but we don't see ourselves being at the kind of level that we reached during COVID when there were a lot of shortages out there in the space.

Wamsi: That's helpful. Now you guys have had a – we spoke about attach a little bit – but you've had a very dominant position in monitors and docks. What sort of opportunity do you see within the peripherals business; and do you see that achieving that incremental growth maybe organically or through M&A?

Sam: We, like you said, we've been very successful in displays and docks. Wamsi, I have a great 6K. I would be remiss if I didn't mention it, I have a great 6K monitor for you with amazing 4K camera integrated into it. We have amazing products there, which has helped us be successful.

But we do see an expanded opportunity around the PC. So if you look at software and peripherals sold around the PC devices that we sell, the TAM there is really half the size of the PC space. And in many cases, many categories, the margins double the PC space. And it's a space that our customers are asking us to get them solutions that cover the experience they want to deliver to their end users. They want things to be seamless; they want it to work together, be integrated; and that's more important than ever today in this kind of work-from-anywhere world that we're in.

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Building off the success that we've had in displays and docks, where if you look at our share, it's higher in those categories than we have in commercial PCs. We have very little share in some of the adjacent categories. So think categories that have the potential to be multibillion dollars in revenue, like keyboards, mice, webcams, audio and even gaming peripherals for high-end users.

So we are building out our roadmap in that space. We have done that organically. So with supply chain capabilities that we have, experts from other companies in the industry who have a lot of capability there and the experience in that space, and we are developing products and solutions that cover that space very well.

If you look at webcams today versus 18 months ago, we had nothing. We have a very good focused lineup of webcams in place, developed in-house, without the need to do M&A. Same kind of thing of I would describe keyboards and mice. We had a kind of partial coverage in that space. During COVID we saw the emergence of a very high-end category, which makes sense. People just want the best thing to do work.

We now have products that cover that whole space, bring a lot of innovation, like collaboration capabilities on a keyboard that no one else in the industry has done. So ability mute, unmute, go on/off camera. For any of you who like to multitask all the time and you get asked a question in the middle of multitasking and then you're trying to find what button to unmute yourself, have a light, capacitive light on the keyboard where you can unmute yourself. Bringing capability and innovation to that space.

We look at it as a really good opportunity. It's a margin-rich opportunity. As I said, it's an opportunity our customers want us to be in so that we can deliver this kind of seamless capability. So we're making pairing of those devices easy. We're building software around those devices so that it works in a really good way with our systems. And we think that's a great opportunity for just growth, better customer experience and really margin and revenue growth around the systems that we sell.

Wamsi: So I should get the 6K monitor, not the ski goggles?

Sam: Yes, I would go for that one, of course. Ski goggles look fun though too. So maybe go for both Wamsi.

Wamsi: I don't think I have the budget for that. Well, at Dell Technology World, you guys announced APEX for PCs. How big do you think this opportunity really is; and do you see this as incremental TAM?

Sam: Yeah, we announced two things around APEX for PCs. So we were excited at Dell Technology World. We made a commitment around extending APEX and as-a-service across our portfolio. And you saw us do that. I have to cover for my Infrastructure Solutions Group colleague, or at least rep them effectively. We added compute on that side that was a really important addition.

And then in the PC space we added two things. We added APEX PC-as-a-service; and we added APEX Managed Device Service. You can think about those as adding a capability for our customers on PC-as-a-service to subscribe to devices. And we see a lot of interest in that space, as you think about the world we described and discussed earlier around PC refresh; how I keep my install base up to date; and also meet the financial requirements that I might be getting from my CFO or my business.

I'm hearing more interest from customers around how do you think about financing or subscription ways that would allow me to refresh my install base and do that at a time when I'm

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being budget conscious. Versus I have to ask for big capital outlays. So we think it fit that environment very well.

We've built flexibility into that offer. So our customers can flex up or down. As number of employees and your needs change, you can go flex. But how do you subscribe to that device? And then we added, Wamsi, this managed device service, which basically says, okay, if you want to subscribe to that device and then you want a company, us, to do all your IT for you – which means 24 by 7 access to support and helpdesk capabilities; keep that system up to date; far easier deployment. Think about a system showing up at someone's house ready to go on your network with the applications that you need, and kind of no-hassle IT. You can put those two together and have a total subscription service that will take care of everything for you in the PC environment.

You look at the first one of those. We've done that for a while. We've built more capability into that offering than we have ever had; and I think we'll have to watch and see how that plays out this year. But we think it's attractive, given the economic cycle that we're in. Some question we get is, financing rates are also higher, so you have all that at balance. But we think it's good to give customers that opportunity from buy from us in any way that they want.

And then the managed device service part of that, the subscription to the IT, we're especially focused in the small/medium business space where those customers are most flexible in saying go manage my devices any way you can for me. They're often time slicing with the IT support that they have. In today's world it can be hard to find that great IT support if you go, hey, I want a 10th of your time Wamsi; and you're going to work with other people.

And what's going to happen when my software engineer who likes to code at 2 a.m. on Saturday night has an issue? It's probably not going to be call my local person who is out with their kids on Saturday night doing whatever.

But we have around-the-globe 24 by 7 coverage. We can deliver that for those customers, managed by us on our systems. We make it work for them. So we think that's a very excited about that offer and the opportunity for those businesses. That's what we announced; it adds to our capabilities, really, in the PC space.

Wamsi: Over time I know there's been different times when companies have chose to de-spec PCs or configurations have changed because of macro issues. Where do we stand now? Are people buying richer configurations despite the macro? Or is that changing at all?

Sam: We've seen a trend towards richer configurations. That said, there will be in quarter variations around that. The macro trend has been richer configurations across our PCs, as you think about this need to drive the apps that are being deployed in a corporate commercial environment. So some of the collaboration apps, think about Teams and Zoom, use resources on a PC. There are security applications that our customers are running that use resources on a PC.

The desire to have a level playing field of allow everyone a great device where they can participate in the work environment and go add productivity and capability to a business, all that's driven richer PC configurations. We think about the future around AI capability, Wamsi, and see other thing – you think about the PC just augmenting, adding capability. We think that's a trend that will continue. There's capability people are going to want on a PC.

In past cycles we saw more change of configuration. We've said we have not yet seen that to a high degree in this kind of more challenged economic environment. We did say when we look at Q2 though, like we'll see some things where pricing and approach may vary across the quarter. So

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we thought we'd see Q2 from like underlying unit dynamics. We're like normal seasonality, which would be up a little bit.

We think there will be some pricing pressure with the dynamics we talked about around cost deflation happening and more challenged demand environment that might mean flat revenue in Q2; and you could look at ASPs then being down a little bit in Q2 with those dynamics.

Long-term trend has been better of this richer configuration in devices; and we think there's reason to believe that that stays around. You can still see inter-quarter kind of variations, depending on the environment that we're in.

Wamsi: Maybe just very quickly on AI. What specifically do you think gets enhanced in the PC configuration for AI use cases?

Sam: We see a different architecture in mainstream PCs that will play to those kind of use cases. If you think about PCs today, there's a lot of capability in workstations that's a segment of the PC space. One misnomer around AI is all AI is going to happen in a cloud and large learning models with hundreds of billions of parameters. We're seeing today AI models running on workstations where you can run 5 million to 500 million parameter models.

And we see this trend in business spaces or an approach where businesses are going to want to do AI in their environment, on their data, on devices that they have. And that can be datacenter kind of devices; hence, Project Helix with Nvidia that we talked about at Dell Technology World two years ago.

To your question, in the PC space, think about that workstation kind of environment coming to more mainstream PCs where we see the advent of offload engines and NPUs or VPUs that add AI processing capability on CPUs that will be available on the architecture in the future. And the ability to then take tasks I'm doing on a PC and have what Microsoft talked about at Build, of a co-pilot type experience where it's augmented by artificial intelligence. And I'm not searching on how to do settings on my device.

We've had multiple years where we've built – we have something we call Dell Optimizer. We built – before everyone wanted to talk about AI, we've had intelligence on our devices for multiple years, so optimizing, automatically setting and configuring that device. So you can think about better performance off the same of power. So greener PCs performing better for users, done auto-magically. People don't want to mess with that.

We've already seen nascent part of that. With these offload engines we see even more capability of how can I go do those settings; how can I find my content? Search on hey, remember when I talked to Wamsi and he asked me about this? What other questions did he ask me about? Like that kind of co-pilot capability coming to the PC I think is really powerful.

And that's where we're going to see devices and architecture that are power on a PC. We're going to see offload engines that we've seen in the infrastructure space in the PC environment to run those kind of workloads. And that's to me the excitement as we look forward of the potential of these personal devices that people will have that we've had in the last couple years, a renewed sense of how important that is in going and getting stuff done. And it's just going to help people to be more productive and more capable in their jobs and roles that they're doing.

Wamsi: Thanks for that Sam. Before we wrap do you have any quick parting thoughts maybe you'd like to leave the audience with?

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Sam: Yeah, I think appreciate your questions today. Hopefully convey the sense of the opportunities we have in our business. I would just say, Wamsi, we believe in the space that we're in. We're in the in technology. Technology is important for productive; it's important for human progress. They're intertwined and that, we believe, is a really good place to be.

I'd leave you with second piece. We're a serial share-gamer. We have an advantage different model, both in our space and in the infrastructure space. And we've been able to win and win in the consolidation of the industry and gain share. And we're committed to continuing to do that.

Third thing I'd say is we're innovating for our customers. We talked a little bit – you had some questions around what we announced at Dell Technology World about our CSG products. You think about the multi-cloud world that we talked about, I think probably one of the first, or the first in the industry to go do that. The announcements we had around Dell Technology World with the top partners in that space all really impressive.

And when you put that together with the business, fourth piece is we're committed to returning capital to our shareholders. So you think about the last six quarters, $5 billion returned to our shareholders, 95% of free cashflow. All those things we think are really good things in the model and approach that we've had. And appreciate your questions today and opportunity to talk about what we're doing and how we think that plays out.

Wamsi: Absolutely. Well, thank you so much. I really appreciate the time. Thank you.

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