



Toni Sacconaghi: Good afternoon, everyone. And welcome to Bernstein Strategic Decisions Conference I'm Toni Sacconaghi, Bernstein's IT Hardware Analyst. And I'm really excited and pleased to have Michael Dell, the founder, chairman and CEO of Dell technologies join us this afternoon. Michael really needs no introduction. He founded a computer company in his dorm at the University of Texas, and at age 27 was CEO of a Fortune 500 company. He's really the inspiration for many young entrepreneurs, and we're thrilled to have him here today. Before we begin the discussion, let me just mention that Dell Technology statements that relate to future results and events are forward looking statements and are based on Dell Technologies current expectations. Actual results and events and future periods may differ materially from those expressed or implied by these forward-looking statements because of a number of risks, uncertainties, and other factors, including those discussed in Dell Technologies, periodic reports filed with the SEC. Dell Technologies assumes no obligation to update these forward-looking statements. So with that, welcome Michael, and thanks again for joining us.

Michael Dell: Great to be with you, Toni.

Toni Sacconaghi: So you guys just reported last week, your fiscal Q1 22 results that were really strong, better than the Street expected. Maybe you can just talk a little bit about what you're seeing in IT spending right now and what you're hearing from customers.

Michael Dell: So yeah, very happy with the first quarter results. Looking back at the sort of last 12 months record cashflow, 14.4 billion from operations, pretty happy about the ability to drive profitability and cash flow through the business. I think right now, certainly, there's generally more demand than supply and technology investments are highly prioritized by companies as it relates to their spending. As you've heard, I'm sure, from many speakers, their digital transformation has been accelerated, huge priority inside companies. And we're seeing that and well-positioned in our various businesses to benefit from it.

Toni Sacconaghi: Well, maybe we can talk a little bit about the demand profile of each of your major businesses. So, PCs grew revenues 20% in the quarter. I think consumer was 40 plus. Commercial, which includes Chromebooks was also double digits. What is driving this? And you guys have talked about an elevated backlog in PCs that's probably likely to last through year end. How do we think about what is

happening and how you think about the sustainability of what might be happening just on the PC side? And then we'll talk about an enterprise.

Michael Dell: Sure. So, you've got this sort of work from anywhere world and it's sort of transitioned from what it was before to one PC per person. And in some cases more than one PC per person. The PC has sort of cemented itself as the most important tool that people have to stay connected and do work in a hybrid world. And along with that this move toward more notebooks... They have a 1.5 year roughly quicker refresh cycle that creates demand. Average selling prices are going up as people want bigger displays and more capable systems. The oldest PC in your house can't really do a Zoom meeting like this. And gaming is up big time. We had Alienware notebooks up 76%. And then, of course, you've got a big expansion of the TAM for us as we've added software peripherals, more services, and support.

Michael Dell: And we've done a great job in particularly adding to the TAM with services and support. So, commercial demand is quite strong right now. And as people go back to offices, it's a really interesting phenomenon. This has never happened before. Let's say you go back to your office September 1st. Well, everything there is year and a half old, right? And by the way, it's not very capable of performing in the way that we've been used to during this period. So, feeling very good about the overall demand trends.

Michael Dell: We're on the supply chain side, like everybody else dealing with the challenges that are out there. I think we did anticipate some of this and have ordered ahead and forecasted reasonably well, but there are challenges. And having a large supply chain and being a what I'm going to call a permanent for a lot of these CapEx intensive businesses is super important. If you're putting \$10 billion in the ground every time you dig a hole, you're really focused on not just what happens next quarter, but over the next 10 years. And you know, these CapEx intensive companies know our company, they know me, they know Jeff Clark as a permanent customer and a permanent hole for their output.

Toni Sacconaghi: So, Michael, let me just follow up with a couple of questions on that PC demand environment. One, you and others have talked about an elevated backlog. And I think you guys said, and so did HP, probably your principal competitor in PCs, that the backlog would probably be elevated through year end. How do we know that there isn't a lot of double ordering in that backlog and that in this rush to raise supply, if ultimately that backlog isn't as strong as people think, that we could potentially have a harder landing. So, let's talk about the backlog question then. And then I want to just talk about sort of sustainability of demand after that.

Michael Dell: Yeah. So the thing that we watch very closely is the cancellation rate of orders in the backlog. And backlog is one of these terms that has different meanings for different companies. I'm just going to define it for our business. At Dell, when we talk about backlog, we're generally referring to orders that the customer wants now. All right? So, this is not scheduled backlog. And as lead times have

increased and also pricing has firmed, we have not seen cancellations. And we have not seen cancellation rates go up. And so we are delivering record numbers of PCs and the output continues to grow. And if you were going to see double ordering, you would also see cancellations coming through the backlog. We're just not seeing that.

Toni Sacconaghi: And can you qualify some way what the size of that backlog might be relative to history? So, typically on average, you deliver in two weeks and now your expected lead time is X weeks, or is there a volume in terms of months of sales, of backlog that you have just so you can provide some context for how different that might be today relative to sort of historical time periods?

Michael Dell: Yeah. I don't think we've put any parameters around. I mean, obviously there are folks who spend a fair bit of time going through dell.com and trying to figure out what the lead times are and coming up with analytical models. And that's probably not a bad way to assess it at one level. Certainly we're also reasonably good at demand shaping, which is to say, "Oh, you wanted this model, but that's on a three week lead time." If you go to the website, we have quick ship systems, we have systems you can get right away. And a surprising percentage of people will pick a system that they can get right away. Backlogs are certainly higher than normal, higher than we would like. And the pricing environment has been kind of what you would expect in a situation like this.

Toni Sacconaghi: Right. I'm sure the quick ship models have decent margins. So, Michael, if we step back and just...

Michael Dell: Everything has pretty decent margins.

Toni Sacconaghi: Right now it certainly does. So Michael, if we kind of step back, I think the big debate among the investor community, and I'm sure OEMs like yourselves are thinking about this carefully is you had PCs that were a growth industry till about 2011. They peaked at 360 million units. They then basically fell for seven years, from 2011 to 2018, to about 260 million units. And this year they're going to be back up at 360 million units. So, we've had an abrupt sort of change and you highlighted this PC per person type phenomena, but at least from our analysis consumer PCs have gone from like a hundred million a year a couple of years ago to 160.

Toni Sacconaghi: 60, Chromebooks have gone from 50 million, 15, one, five million units to 60 million in two years. And so you've had tremendous additions, invariably new users, invariably accelerated replacement cycles. And I get that PC intensity might be higher going forward, but given the strength we have had over the last four quarters, and probably continue to have for another two or three quarters, what is the risk that there is a period of digestion for one or two years, and that PC units fall five, 10% in 22 or 23? And how do you as a company think about that?

Michael Dell: Well, first of all, I think if you look at our business, as you know, Tony, we're much more a commercial business than a consumer business. And, as we have grown the TAM for the CSG business, it's kind of broadened out the set of opportunities that we're going after. There are \$150 PCs, then there are \$3,000 PCs. And if you look at sort of the last six, seven years, and you overlay those unit trends with the Dell CSG revenue, you see some pretty interesting separation in terms of our ability to grow through periods where maybe units are not really growing.

Michael Dell: We're growing PC as a service and overall feel very good about our ability to gain share. Our share is not all that high and there's plenty of room to grow and to do so profitably and to increase the TAM. We joke a lot about the wonderful displays, well Dell's been number one in displays in the world for, I don't know, 12, 14 years, something like that. It's growing super fast, right? As you think about the hybrid world and multiple locations where you might be working, people love the widescreen 49 inch display. If you don't have one of those, you should get a couple of them.

Toni Sacconaghi: Got it. And Dell has a proven track record of gaining share in PCs, it's been pretty inexorable throughout Dell's history. But if I were to have you put your ended street, pundit hat on our PC units down in 2022, in calendar 2022, and could they be down double digits in aggregate?

Michael Dell: Honestly, I don't think anybody knows. What I see is the PC getting more important, not less important. I see Hybrid increasing demand, I see Notebooks increasing the replacement cycle, gaming is certainly growing super fast. And look, I think our ability to grow through all of that, particularly as we moved more towards, as a service and expand the TAM, I'm feeling good about our opportunities. And look, I think they're exciting things happening in user computing. And there's a lot of energy in the ecosystem around continuing to drive the refresh, and people are energized around the new things that they could do with the latest and greatest PCs.

Toni Sacconaghi: All right. I want to, I'm going to come back and revisit sort of standalone Dell, because there's an important event happening this fall. Maybe we can back up half a staff and just talk about the spinout. So you confirmed in April that Dell Technologies is gonna spin out VMware to existing Dell Technology shareholders. And I guess the question is how did you come to this conclusion? I think you may have seen in our written notes that, and I don't think we've actually talked since the event happened, that I wasn't sure you were actually going to do it. [crosstalk].

Michael Dell: But now you are sure.

Toni Sacconaghi: But now I am. And so I'd like to say why I was questioning whether you would do it, and then maybe you can take us through the process of how you got there. My question was, one, this was an asset that you spoke a lot about synergies together, and the value that it brought to Dell Technologies when you

bought it, VMware is part of VMC, it accounts for, historically, it's accounted for up to half of Dell's cashflow, it's faster growing, it has higher margins, it's more recurring revenue.

Toni Sacconaghi: Those are all aspirations for Dell. You're not cashing out my guess is you're going to continue to be a majority shareholder in Dell Technologies. You're gonna continue to own the very large stake about 40% in VMware. This wasn't about, enriching your pocket because you're a long-term investor and I suspect you will continue to be, so how do I give those observations with the ultimate decision that you said, "Hey, this is best that we spin out VMware to shareholders."

Michael Dell: Sure. Well, it's certainly a considered decision, right? So something we thought about for some time, and it took a lot of input from shareholders and understood what was going on with customers. If you go back to 2016, all those things that you said absolutely true, and we did all those things, right. We drove a lot of revenue, synergies, drove the revenue from Dell Technologies at VMware, from a single digit percentage to over 30%. And, that created a ton of value, but still, shareholders didn't really appreciate the holding inside the company. And so, this structure allows us to continue all the great things we've been doing commercially, and really doesn't change anything for customers, but is a great benefit to our shareholders.

Michael Dell: I think that's, obviously super important, but I think standalone Dell, core Dell has tons of great opportunities, not only in the Alliance of partnership with VMware and Multi-cloud, but in Edge, in Telco, in 5g in the business model transformation to, as a service through Apex, which is also a TAM expansion.

Michael Dell: And obviously this structure, is highly favorable for our shareholders. We solve the kind of debt issue, put both companies on a great track with an investment grade and, simplify the structure. And as you said, Dell technology shareholders will benefit from their holdings in VMware, which has a great future as the Multi-cloud platform for digital transformation.

Toni Sacconaghi: Right. But if, I think really long-term Michael, like 20 years, and you've been in this industry for more than 30 and you will in some way, shape or form be in probably for another 30. So if I think about that, longterm lens is Dell Technologies as powerful a marketplace player, without VMware, as it would be with VMware. VMware is a force in the cloud and by owning it invariably you do shape its fortunes in terms of, its acquisitions and its strategic direction and its integration with Dell more tightly than if you don't own it. If you think out 20 years, I get the release of value to shareholders near term. But if you think out 20 years, is Dell Technologies stronger without VMware than with VM?

Michael Dell: Well, Tony, we're building value here. We're not building pyramids. And so I think ultimately this is a great decision for our shareholders. I think 20 years from now, our shareholders will have benefited from the holdings of the two companies. Hey, it might be five companies by then, who the heck knows, right? But, 20 years is a long time, but look, the structure that we've chosen, the path

we've chosen, clearly preferred by shareholders. And I think preserves all the great things we've been doing for customers. Feel great about the direction both short-term and long-term.

Toni Sacconaghi: So Michael, if we think about the standalone Dell going forward, how do you think about its competitive positioning and sort of what might be a realistic growth profile of that? I think your last analyst day was in 2019, a lot has changed since then, obviously with the pandemic. But, you were talking about low single digit growth, for the industry and without VMware, that might even be lower, Dell gaining share, having operating leverage, E.P.S leverage on top of that. How do we think about realistically, within markets historically that haven't grown much PCs and servers and storage? What do you think of, what is a realistic kind of growth rate for standalone Dell going forward, how do you sort of get there between in market growth versus share gains?

Michael Dell: So I think we have an attractive long-term financial model in the core business. And as I think about growth, I would

Michael Dell: ... Characterize the longer-term picture as GDP, or perhaps, a little bit north of GDP growth over time with strong cashflow and compounding EPS. We have large and growing long-term available markets, and we're well positioned across multiple sectors. We have, as you said, a history of gaining share in x86, in hyperconverge, in PCs. I think you'll see us grow op. inc faster than revenue. I think we'll have EPS accretion through debt production, and I think there's tons of value to continue to be created inside the core when you lay all that out over a three-to-five year timeframe. And we're certainly looking forward to our analyst day to kind of elaborate some of that.

Toni Sacconaghi: Right, and we talked a little bit about PCs. We didn't touch as much on enterprise, Michael. And so again, I think if you look at the market research data, it would paint a picture of limited market growth in both servers and storage from a revenue perspective. Do you have a different view or is it really your confidence that Dell can take share in both of those markets that drives you to something that's more GDP-type growth?

Michael Dell: Well, I think we can take share. And I also think that there are emerging growth vectors, for example, in Edge that are very significant. I mean, we're starting to see hundreds of Edge projects that are meaningful by customers, which obviously, we're more indexed to those. Multicloud continues to proliferate. And look, we are providing a lot of infrastructure to a lot of the CSPs out there.

Michael Dell: I mean, if you look at our top 1,000 ISG customers, the demand from softwares and service from cloud-hosting companies from Telco, consumer web tech, fintech, it's grown double digits in the last 12 months. And it's roughly ... 30% of our orders from our top 1,000 customers are in those categories. And yeah, I mean, the growth trends in ISG have been improving, and I think in the second half of the year, feeling optimistic about what we'll continue to see there. And I think we can gain share.

Toni Sacconaghi: Right. So Michael, just ... I know you've alluded to this number on earnings calls before, so you're suggesting, or you're stating that 30% of orders, that's 30% of the revenues from the thousand largest customers are coming from CSPs. Is that correct?

Michael Dell: Yes.

Toni Sacconaghi: Okay. And if I were to sort of say, "Look, one question that I get a lot is how does Dell participate in the cloud? And how do you measure your cloud revenues?" Would that be the statistic that you would cite, or how would you discuss Dell's both cloud strategy, participation, and revenue profile today?

Michael Dell: No, I would say it's quite a bit broader than that. I mean, first of all, I think about ... think about the cloud in terms of hybrid cloud and solutions that span across both public and private. And if you look at private cloud, it's significant, right? There's a lot of private cloud, and it's continuing to grow. It's not going away, and we're number one in that. And VMware is number one in hybrid cloud management and 600,000 VMware customers. It's sort of migrating from the virtualization company to the software-defined data center to the multicloud company. And Dell Technologies is a leading way to deploy that.

Michael Dell: And what we're doing with Apex is sort of moving the whole business to as a service and consumption model. And so it's much broader than just selling equipment to the CSPs. You take our VxRail system and we just announced some new enhancements to that. It is by far and away, kind of, the leading platform for hybrid cloud and super easy for customers to deploy that kind of solution. And if you think about moving that into, as a service consumption model, the TAM grows quite nicely for us. All that is to say, I think we have a very attractive opportunity in ISG as well.

Toni Sacconaghi: Right. And just on Apex because we've heard more OEMs move towards as-a-service models. Obviously, Dell's had Dell Financial Services for a long time, and so consumers have been able to consume in various kinds of pay-as-you-go manners before. Maybe you can just, succinctly, suggest why Apex is different and why has it necessarily lead you into bigger TAMs? I get the fact that if you have someone on a subscription and a solution, you can probably have higher support attach rates, and you can work with them on a larger part of the solution. But, specifically, what do you believe is distinctively different relative to the various consumption models that you've offered over the last several years, particularly, with your DFS capability?

Michael Dell: Sure. So what I'm seeing in our business is we're increasingly winning data centers as service projects and managed services is growing. And if you think about the sort of evolution of this business, it kind of starts as a product business, then you add services, then you add managed services, and sort of, the next destination ... not going to call it the ultimate destination because there's probably something after that, is the whole thing is a service, right? And

it is a pretty big expansion of TAM because you're, effectively, taking on major tasks for the customer.

Michael Dell: And you think about our partnership with Echo [inaudible] as an example, right? We're taking on colo telecom, that's all included in ... I'm going to draw your attention to our remaining performance obligations. At the end of the last quarter, it was \$42 billion. That's a substantial sum if you compare it to other companies up 15%, if you take X ... VMware, it's 32 billion up 18%, and it's been growing quite a bit faster than overall revenue.

Michael Dell: So as we've continued to grow the, kind of, managed services, data centers of service, utility, Flex on Demand, and now Apex bringing all that together, making it easy for not just the really big customers to do this, but for any customer to do it.

Michael Dell: Yeah. I think it's a massive expansion of our available market opportunity.

Toni Sacconaghi: Okay. So Mike, I have a number of questions that have been voted on. So in the spirit of ... we have about 10 more minutes, I'll rapid-fire some of those at you. So, first, if there's a more serious chip shortage, does Dell actually gain, share, given its lead times and availability to secure supply?

Michael Dell: It's hard to see, kind of, super bad things happening if components are really in short supply, other than just lead times are long, and it's very difficult for customers. But what happens within that, of course, is you prioritize the more valuable places for those components to go, and you prioritize the long-term and better customer. So I think we're advantaged if that were to occur.

Toni Sacconaghi: And your ability to prioritize relative to appear is advantaged ... why, Michael?

Michael Dell: Direct. We're into more index to direct than competitors.

Toni Sacconaghi: Okay. So a couple of questions and-

Michael Dell: You see that in the profitability of our PC business, relative to the others who have many more units, but less profit.

Toni Sacconaghi: Right. Yeah. I mean, maybe I'll just follow up on that before asking the next one. You have talked, about as a company, sort of normalized PC margins being around 5%, and they were that for several years prior to the last couple of years. They were 8% in the last quarter.

Toni Sacconaghi: You talked about this very benign pricing environment. Obviously, when demand is greater than supply, or isn't a lot of discounting, people are kind of taking what they can get. Has your view on, sort of, the right level of profitability for the PC industry and for Dell change because of this pandemic? Or should we



be thinking of the historical levels that you guys have alluded to, around 5%, is sort of being normalized long-term profitability for PCs?

Michael Dell: Well, I'm not going to update the guidance that Tom gave you just last week, Toni, but that's a great question for our analyst day in September. Look, I think as we continue

Michael Dell: Continue to make progress on expanding the TAM. Some of these areas where we're expanding the TAM do have very attractive margin profiles. So let's see how we do. Come to our analyst day. We'll have a good chat about it.

Toni Sacconaghi: Now, just on VMware, there are a couple of questions about what happens in terms of your relationship with VMware post the spin. So very specifically, today or in the past year, you accounted for 35% of VMware sales. A lot of that was reselling their product. Some of it was jointly developed and delivered product like VxRail, but a lot of it was just reselling VMware.

Toni Sacconaghi: So you've talked about a commercial agreement where I presume that will occur. But were you getting paid for selling \$ 4 billion a year of VMware stuff going forward? And it sounds like today you're not really getting paid, and you're getting paid in virtue of the fact that you own VMware. But in the future, that won't be the case. So should we be thinking about a commission stream that Dell will be able to achieve by continuing to resell VMware going forward? And why wouldn't that be the case? I presume you received commissions for bundling exchange in other forms of software. So how do we think about that and how do we think about that relationship with VMware post the spin?

Michael Dell: Yes, we will get paid. And it's worth it for us to continue to grow that business. I would think about this a little bit differently, because when I see our customer relationships, basically, these customers are like I don't want to deal with 20 different companies and integrate all this stuff myself. Dell Technologies, if you can bring all this together and provide it to me as one provider, that's fantastic. I'd rather do that with you than have to go assemble it all myself.

Michael Dell: And VMware's a big part of that solution. We've certainly continued to build new capabilities together and innovate together, and I think it'll be a win-win. At the same time, both companies have an ability, and have before, to work with others. VMware is great, but it's not the only solution out there. And Dell Technologies works with all the other ones as well.

Toni Sacconaghi: Right. So Michael, post the VMware transaction, Dell Technologies will continue to trade. But it does have a supervoting structure. Effectively, your shares count for higher amounts of votes, and that means you have majority voting share. But you also have majority economic share. And unfortunately, because of the supervoting structure, Dell Technologies cannot be part of the S&P 500. And so that's sort of the drawback that's associated with it. Would you consider

abandoning that supervoting structure? And why is it necessary if ultimately you control the majority of economic interest to have such a structure in place?

- Michael Dell: Don't have any plans to change it. And look, I think there are plenty of companies that have a similar structure and it doesn't seem to have slowed them down too much.
- Toni Sacconaghi: Right.
- Michael Dell: So we're happy.
- Toni Sacconaghi: But you are shareholder friendly, Michael. I mean, you talked about this transacting and listening to shareholders. I think it could elevate the importance in terms of becoming a benchmark for more investors. And so hence the question, and many people have asked.
- Michael Dell: No plans to change it.
- Toni Sacconaghi: Okay. So Michael, post the VMware spin, can you talk about your priorities for free cashflow post the spin, starting with the highest priority?
- Michael Dell: This is going to be something we're going to talk about in September. Obviously, for now, we've been singularly focused on debt reduction. I think you can expect us to have a more balanced approach as we look at capital allocation. I wouldn't expect to be too surprised with what you see in September.
- Toni Sacconaghi: And Michael, when you say more balanced approach, balanced between debt reduction and?
- Michael Dell: And other alternatives for capital.
- Toni Sacconaghi: Okay. But that would include M&A and return of capital?
- Michael Dell: Sure.
- Toni Sacconaghi: Is there anything else we should be thinking about?
- Michael Dell: I don't have to fill the blanks for you on all the categories that could fall into return of capital. But certainly we're going to be thinking about how we create value for our shareholders and continue to drive the great returns that we have.
- Toni Sacconaghi: Right. Michael, I'm going to ask you two more questions. One is, 20 years from now, who are the leading IT vendors?
- Michael Dell: It's a great question. And if you go back and look at history, what it would tell you is that it's probably not the ones that are the leading ones now. And this is an industry that is constantly changing and evolving, and success in the present

is in no way a guarantee of success in the future. It's certainly not, if you take your crystal ball out 20 years.

Toni Sacconaghi: Okay. And then final question. Maybe briefly you can just make a quick pitch on why Dell Technologies stock at today's levels? And you also have a book coming out in October called Play Nice But Win. Feel free to pitch that as well.

Michael Dell: Great. So look. I think we have attractive long-term opportunities to grow. We have a huge TAM. We have a differentiated business model. We have leading positions, and we're investing to grow that business. I think we also have a long-term track record of creating value for shareholders. So excited about the future of the business. And certainly, this is going to be a great year.

Michael Dell: I do have a book coming out. You're it, Toni. So you have to look forward to that. And it's been a fun last couple of decades, and certainly some great stories to tell about my adventures and about the future as well. So the book is coming out in October. 336 pages of fun. So look forward to it.

Toni Sacconaghi: Great. Well, I listened to your How I Built This podcast, which I thought was terrific. For those of you who haven't listened to it, it's an NPR podcast with Michael, which is great. So I look forward to the book. Thank you very much for your time today, Michael, for your support of the Bernstein Strategics Decisions Conference. And I look forward to hopefully seeing you in person soon.

Michael Dell: Great. Great to see you, Toni.

Toni Sacconaghi: Okay. Thank you.