Speaker 1: Good afternoon, everyone. Before we get started, if you are a member of the press or media, please disconnect at this time, this is a restricted line. Any unauthorized party in this meeting or any unauthorized use of the information communicated in this meeting is subject to prosecution to of the fullest extent of the law. Any unauthorized person, including the media, that is on the line at this time, please disconnect. Please note, today's call is being recorded.

Aaron Rakers: Perfect. Thank you everybody for joining us this morning. I'm Aaron Rakers, I'm the IT, hardware and semi analyst here, at Wells Fargo. Extremely excited to host a quick discussion with Dell... Dell's corporate controller, Yvonne McGill, who leads global accounting tax treasury in the IR organizations within the company. Before we get to the discussion, I've been tasked with the opportunity to read the Safe Harbor. So, 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 in future periods may differ materially from those expressed or implied by these forward looking statements because of a number of risk uncertainties and other factors, including those discussed in Dell Technologies, periodic reports filed with the SCC. Dell technologies assumes no obligation to update its forward looking statement.

Additionally, I'd mentioned that... Yvonne, as I mentioned, leads the global accounting tax and treasury organizations as well as IR within Dell to give a bit of further context, she's also been responsible in the past to drive and deliver against the ISG strategic objectives and financial commitments. Having previously served as a senior vice president and CFO of the ISG organization... And global financial planning and analysis, up until January of 2020. So, basically Yvonne, you've had a lot on your plate, it's been an extremely busy period for Dell, and I'm looking forward to hearing a little bit more about the story.

Yvonne McGill: [inaudible].

Aaron Rakers: First of all, thank you for joining us. You guys just finished your some quarter and maybe I'll start with the high level question. Maybe you can just level set people of how you're seeing or how you characterize Dell's performance and maybe just touch on briefly some of the key trends that the company's seeing and how maybe we think about those as we look forward, as well.

Yvonne McGill: Okay, great. Thanks. And thanks for... Thanks for having me today. This certainly has been a historic year at Dell for so many, so many different reasons. Demand for our solutions remains exceptionally strong, driven by global economic recovery and widespread digital transformation. It's a, it's a great time to be in this industry. We delivered our fifth consecutive record quarter and hopefully going for sixth, right now, resulting from robust demand, durable competitive advantages, and strong execution.

Despite the changing and challenging supply environment, we delivered 21% revenue growth in Q3. We saw strong growth in all three business units, all regions and broad strength across our PC servers and notably, an inflection point in storage, as we grew year over year. We gained share and server storage and PCs, according to the latest reported IDC results. From a BU perspective, CSG delivered record revenue up 35%, really driven by ongoing strong demand across the board, whether it's commercial and consumer, notebooks, desktops, you name it.

Our teams did an excellent job navigating the inflationary component cost and logistics environments to resulting in record CSG operating income. $1.1 billion [inaudible] 12%, year over year. On a year to date basis, a big wow. CSG business is up 28%.

Aaron Rakers: Yep.

Yvonne McGill: ISG also posted its third consecutive quarter of growth up 5%, not as wow as CSG, but still pretty great. Servers and networking revenue was up 9%, that's our fourth quarter of consecutive growth there and the storage PNL returned to growth, up plus one. So, plus one is better than minus one, right? With even stronger overall storage demand, which we expect to see reflect in the PNL going forward.

On a year to date basis, ISG is actually up 4%. We completed the transaction to spend VMware and closed the [Boomi] divestiture. Each of those transactions, helping to result in a more simplified corporate structure, which is some of the feedback we've been getting from investors over the years, in regards to our corporate structure. We generated strong cashflow with 13 and half billion in trailing 12 month CF ops, [inaudible] up 45%. One of our biggest wins for the quarter, if you will, is that we're now investment grade, hooray. It's been a long time coming and we paid down a significant amount of debt. So, all in all, another solid quarter... really continuing our track record of delivering consistent growth profitability and of course, cash flow across this really challenging environment.

Aaron Rakers: Yeah. Yeah. I definitely, maybe, kind of... We'll touch on some of the component pricing and the supply constraints because that comes up in every discussion.

Yvonne McGill: Mm-hmm

Aaron Rakers: But, before we go there, I mean, let's start with the demand side of the equation. You mentioned robust growth in PCs. As we went into this calendar third quarter slash October quarter earning cycle, there's a lot of discussion around how we were thinking about PC demand.

Not just near term, but in... As we look forward. So, how would you characterize and the degree of certainty that you see higher PC demand, be it work from home, hybrid, and does... How does Dell foresee kind of PC growth dynamics into 2022, at this point?

Yvonne McGill: Well, why don't I start with what we've seen. Over the past four quarters, we've really seen usage patterns change and have really led to higher demand environment for us, holistically. Right? I just talked about the results. The PC's become more essential and in this do anything from anywhere economy, whether it's learn from home, entertain from home, buy from home, I do a lot of that, game from home and really work from anywhere or everywhere. The PC's the center of it all. We see the number of PCs increase per household, so really before the pandemic hit, we saw one per household and now it's really moving towards one per person or in my house, and it's maybe more than one per person... Or it is more than one per person. In a more mobile world, the demand cycle has shifted to Notebooks which have, thank goodness, a faster refresh cycle. So, they have to be replaced more often.

And we've started to see, really, a resurgence of commercial demand as we have more people, more companies having returned to office, and they need to update those PCs that have been sitting there unused for a period of time. But, through this dynamic environment, we've really felt the benefit of our direct Salesforce. They've really helped us shape the demand and help us stay ahead, if you will, of those demand shifts. So, initially we saw consumer and education really going wild there, leading demand as we started that learn from home and then, commercial followed to enable more flexible work environment. Recently, Microsoft announced Win 11, which will be another catalyst for growth, we believe, as will drive a refresh cycle on those older PCs that don't quite meet the hardware requirements.

So, that's good news in the PC area. The technology trends we're seeing and the new usage patterns support a projected expanded level of industry demand. So, we expect it to stay higher going forward. IDCs forecasted the next few years at 340, 350 million units, versus the 260 million range it's been running. We do recognize that there's some debate over how high those industry levels will be, but we do believe they'll stay elevated given all of the things I discussed already.

Aaron Rakers: Yep.

Yvonne McGill: So, I'd remind everyone also that... Our business is primarily, or 70% is commercial PCs and we have gained share in those commercial PCs, 31 out of the last 35 quarters. Also about 80% of the industry revenue and nearly all of the industry revenue growth has and will come from those commercial PCs, premium consumer PCs, like our XPS notebooks or [inaudible] gaming products. So, we're focused right where the growth is, right? The most stable, most profitable segments of the market, whether it's commercial PCs, that small and medium business component, and then that premium consumer products, including gaming. So, we like all the trends we're seeing. We have a durable, competitive advantage, and we have a track record of execution and share gain in any market dynamic.

Aaron Rakers: Yeah. That's a great, thorough answer there. I think even at the analyst [inaudible] alluded to kind of the growth drivers, the premium categories and how relevant and important that is. Kind of segueing off that a little bit, I mean, navigating supply chain, as you brought up in the first kind of question. How has that... There's a lot of discussion around PC supply constraints, Dell definitely leveraging their direct model effectively, as well as supply chain. So, any quick thoughts on supply chain, as you see it, as it relates to PCs as we move into next year, kind of underpinned by that growth expectation?

Yvonne McGill: Yeah. I mean, I think we... Holistically, we expect the supply constraint to continue into... Through... Throughout the next fiscal year or calendar year. We're seeing, we're expecting inflation to continue, expect Q4 to be slightly inflationary from a component cost standpoint, but again, the supply constraints rates really continuing through the year. So, that's really where we'll focus on our... Shaping demand to the best way we can with our direct model. So, obviously the, channel's very important to us, direct business is important to us, but it gives us that edge to be able to really kind of shape our demand better to allow us to sell what we have.

Aaron Rakers: Yep. Yep. I'd just add on top of that. I mean, not only premium mix, but your ability to fully participate and lead in the peripheral side of the market too, is definitely been-

Yvonne McGill: Absolutely. Absolutely.

Aaron Rakers: [crosstalk] advantage. Yeah. Yeah. So, shifting gears, you have a background in the ISG segment. I think one of the common questions I get on ISG is that you've had multiple executive quarters of growth. In servers, you've started to see some demand improvement in storage. How are you thinking about some of the growth drivers or maybe accelerators of growth as we look out, through next fiscal year or even longer term?

Yvonne McGill: Sure. Again, I'll start with some background of what we're seeing in the industry. In the near term, ISG business has seen positive momentum as enterprises and IT spendings really rebounded, right? I spoke about that a little bit already, and we're seeing our multi-year investments we've made in our portfolio starting to drive results in longer term. We're seeing some really exciting and positive enablers, too. So, data, right? Data is being generated by an expansion of devices at the edge. It's expected to grow at a 23% [inaudible] through 2025. So, what does that mean? I say another point would be that by 2025, 75% of enterprise data will be created and processed outside of data centers. So, at the edge. So, that's pretty exciting. This data generation and then, you've got to turn it into information. So, that requires better storage, more compute and better software as customers seek to process analyze and get the insights out of that data, turn it into information.

So, we're positioned really well, we feel like, to provide customers the infrastructure and solutions they need. We have the most extensive and diverse portfolio in the industry. I'd remind everyone that we're number one in X86 and mainstream servers and all external storage categories. So, as data proliferates, the infrastructure becomes more distributed, hybrid and software driven, and we feel like our products and innovations will also become increasingly more software focused.

So, as an example, and one of the examples with VMware, our [VxRail] offering and [Powerflex] really do help customers transition the software defined data center. These products are the foundation of their multi-cloud strategy, both in the data center and on the edge. So, we're driving this transition to the software defined data center. We've taken about 350 basis point of share and HCI over the last three years and we now have 32% of the market.

When you consider the external storage market, mid range storage is the largest portion. So, 60% of the market, and it's the fastest growing, it's had a 5% or expected to have a 5% [inaudible] from 21 to 25. Our power store, mid range solution is the industry's first modern storage architecture in a decade and it's really been growing very well, over double digits the last three quarters. We've seen that product bring new customers to Dell, new customers to storage, and we're seeing them repurchase, also.

So, repeat buyers in that space, and I'd be remiss if I didn't talk about our server portfolio just a little bit. We've seen our ASPs continue to increase, driven in part by higher storage memory and compute content rates, which point to really their use for high value workloads. Our new 15th generation power edge servers have adaptive compute to handle any workload, from AI to data intensive and deliver real time data insights, wherever the data resides. So, we've built some really strong momentum throughout the year in our ISG business and we're excited about how that's going to continue and we're focused on the markets that are growing and we're really op... Ugh, my gosh... Really optimistic about the opportunities ahead.

Aaron Rakers: Right and one of the questions, and we'll jump over to some other topics...

Yvonne McGill: Uh-huh.

Aaron Rakers: One of the questions I get is storage, right? It grew 1%, it's a big deal, you've returned to growth, but it sounds like the underlying order growth has been stronger. So, do I think that as power still grow... Power store grows that we're going to get to a point in time, I'm not going to tell you that, I'm not going to ask you what point in time this is, but where we actually start to see that business from revenue profile start to track that demand that you've been pointing to the last couple of quarters?

Yvonne McGill: Yeah, yeah. Definitely. So, we did speak that our demand in storage is growing faster than we're seeing it in the PNL. We have really high software and services content in... Within our storage portfolio. So, from a PNL perspective that does get recognized over time, some for... over four to five years. So, we are expecting that, but as we... As that growth continues, so having each quarter grow year over year is going to create that momentum for this continued growth and acceleration in our storage results. So, on the... Although, it may not be visible on the face of the PNL, we are growing our deferred revenue, which is a really positive, and our RPO, our remaining performance obligations have increased also. So, I think that really good, we're building that stability onto the balance sheet and into the future PNL.

Aaron Rakers: Shifting gear, we talked a little bit about it earlier, supply chain constraints and your ability to navigate through that has definitely been an advantage for Dell. Higher inflationary component pricing, I mean, talk briefly about the ability to pass that through what you've seen as far as stickiness of pushing through some of the price increases that we're seeing at the component level.

Yvonne McGill: Sure. I mean, it's really semiconductor shortages, supply chain challenges, logistics costs, significantly higher logistics costs. We've seen all of that across the entire economy, right? Including in our space, in IT, we've really been leaning on our durable competitive advantages around our multi decade operational heritage, right? So, we were kind of defined as a global operations supply chain kind of company. So, we're leaning on that. Our product design, I mentioned this already, our design and our flexibility or less complexity in our product design has been a great enabler. Then, these demand signals I spoke to with the sales force really helping us rapidly shape demand based upon that component of availability. But, despite all these market challenges, we shipped a record number of products globally, in Q3, so pretty amazing.

Our product, our global operations and sales teams did an outstanding job, I believe, navigating the challenges in the supply chain, inflationary cost environment [inaudible] [inaudible]. And from a cost perspective, we've seen higher input costs. So, we're doing our best to price those. In fact, in the third quarter, we saw the highest sequential inflation in history of the company and we've been around a while now, right? So, pretty, pretty remarkable inflation.

We did raise prices to abate those higher input costs on our products in both CSG and ISG and did our best to navigate that environment. I would say we're doing our best, and we're very mindful of the competitive landscape though, because during that process of raising prices, we don't want to dampen our demand velocity, right?

So, it's really a balancing act there, but given the overall macro environment and the overall inflationary trends, our customers have seemed to be relatively understanding of those dynamics and the impact on their purchases. As we... We do track, though. We are very focused on making sure we're not seeing... It's tracking those demand signals, are there any impacts to demand or are we seeing cancellations or anything? To date, we haven't seen anything like that. But, at this point, we see supply constraints continuing, as I mentioned, through next year and expect inflationary environment through the fourth quarter.

Aaron Rakers: Yep. Very... Yep.

Yvonne McGill: Yeah.

Aaron Rakers: Sorry, go ahead, Yvonne. [inaudible]

Yvonne McGill: Oh, no, no, go ahead.

Aaron Rakers: I was just going to shift gears because we've got about nine minutes or so left. I wanted to definitely get to, I'm sure, really important topic of discussion for you, which is VMware [inaudible] completed investment- grade, check the box. So, one of the things that I think people were surprised by coming out of the analyst day was just the degree of adjusted free cash flow underpinning what now becomes a very, I think, visible capital return story to the equity side. So, can we... Can you talk a little bit about how we, as investors, should be thinking about Dell's propensity of driving shareholder value via capital return and kind of underpin that with the drivers of that free cash flow story, as we look forward.

Yvonne McGill: Sure. We do have a great track record of... Creating cash flow, right? We have a negative working capital conversion cycle that's really differentiated amongst our competitors. When we grow with that negative working capital conversion cycle, we generate a significant amount of cash flow. Our long term financial framework revolves around composite annual revenue growth of 3 to 4%. We talked about this in the security analyst meeting in September and again last week. Growing EPS faster than revenue and greater than 6% and generating free cash flow and excess in net income. So, recently, we've... I would say, we've also gotten a lot of questions about our, why do we have so much cash on the balance sheet? So, we feel like it's been prudent. It takes about four to 5 billion, we feel like, to run the business and we have some additional cash that's been on hand, which we thought has been prudent, given the pandemic and everything going on.

But, as we move forward, I think you'll see us using that cash more for other areas, as we're talking about returns to shareholders and such. So, as far as return to shareholder, which was one of the points that you made, we're expecting that we would have 40... We'll be targeting 40 to 60 percentage adjusted pre cash flow return to shareholders. We expect to do that via a dividend, that will start in Q1 of FY 23. So, this next... This next year, obviously that's subject to approval of the board and then, programmatic share buy backs. So, thinking through that from a return to shareholder perspective, and then that remaining cash flow, we want to focus on establishing and maintaining that 1.5X core [inaudible], but really funding organic investments in the business that fuel growth, whether it's around edge or telecom, around our [apex] offerings and really supporting targeted tuck in M&A, that enhances that overall strategy.

Aaron Rakers: Correct me if I'm wrong, there will still be a little bit of deleverage to the balance sheet, as well, as we move forward.

Yvonne McGill: We will continue... Continue with with that. But, certainly not a primary use of our free cash flow, as it's been over the last number of years, right? We've been using... We had been using about 90% of our free cash flow for debt paydown. So, now we feel like we have opportunity.

Aaron Rakers: I think at the analyst day, the comment was, or the metric was, Hey, we've generated 5.8 billion, per [inaudible] average free cash flow over the past few years, actually it's ticked up the last couple of years.

Yvonne McGill: It has.

Aaron Rakers: I think over seven, anything that structurally changes that free cash flow dynamic, especially in the context of growing top line or do we think that that's the consistent or even higher than net level we should be considering?

Yvonne McGill: Yeah, no, we think it's... There's nothing... Nothing that we anticipate that changes that dynamic. Obviously, growth will help improve the, the free cashflow, but nothing that we expect to change the dynamic and the structure of cashflow. It's been a very consistent... Very consistent for us.

Aaron Rakers: Yeah. Then, the other topic on the VMware spin, obviously is... We sharpen our pencils and investors now see what the company looks like post spin, that there has been this you maybe appropriately, maybe some not modeling correctly, the VMware relationship, as far as the reseller revenue contribution. How do we think about that revenue contribution over time? And obviously, it has some margin implications as well, but just level set us on how we think about that model.

Yvonne McGill: Sure. So, we have entered into a commercial framework agreement with VMware and part of that will include this, you mentioned the resale revenue, but I'd say, our... It's really reinforcing our overall strategy, right? To consolidate and modernize the core businesses and grow new businesses in adjacent areas, like I mentioned [inaudible].

We're continuing to work through and collaborate with VMware, as I think about our positioning ourselves to address workloads, applications and data management, right? That first and best approach with VMware comes in... As a very critical element. Our commercial agreement formalizes our joint commitment to product innovation and go to market. We, according to VMware, we contribute about 35% of their revenues and as we continue that deep relationship, which we've built over the five years, we feel like we can drive growth through this reseller revenue stream, as well as the innovation stream.

As far as the... We will be reflecting that resell revenue in our other business. We have... We feel like the benefits of the joint collaboration and development, you see that reflected, I would say, in our ISG business a lot, but the resale business will be reflected in other. So, we believe it's important for us to continue that, as we receive benefits in the go to market, as we go to market together, in front of our customers.

Aaron Rakers: Yep. Maybe, in the two minutes I've got left.

Yvonne McGill: Mm-hmm

Aaron Rakers: I mean, is there anything that we didn't discuss, or any kind of final thoughts on leaving investors was some of the key themes or topics of Dell that you'd like to highlight?

Yvonne McGill: Sure. I would, I would Aaron. So, Dell Technologies is a company that's continued to evolve over the years. We compete in very large markets, right? Roughly 1.3 trillion in size, I believe that there's a lot of opportunity to continue to grow our core markets, complimented by incremental growth and adjacent markets, like telecom and edge that I mentioned.

We have a tenured management team that has a track record of delivering growth, profitability, and strong cashflow. Our long term financial framework, which we discussed in our analyst meeting and reiterated last week, [inaudible] 3 to 4% revenue growth with EPS exceeding revenue growth at 6% or better. I feel really, really good about that and now, we're investment grade, right? We'll execute a more balanced capital allocation strategy that includes capital return to shareholders, which is very important. We've also been unlocking shareholder value by simplifying our corporate structure and our capital structures. I'd say, most importantly, we believe there's a lot of valuation upside relative to where we are today. So, I'm excited to be, I'm proud to be part of Dell, I'm excited to be part of this next chapter of the company. So, thanks for having us today.

Aaron Rakers: Yeah. No, thank you so much, Yvonne, and I appreciate the time and hopefully we'll speak again soon.

Yvonne McGill: All right. Thanks.

Aaron Rakers: Thank you.

Yvonne McGill: Thank you.