Jim: Good afternoon, everyone. Hello and good afternoon, everyone. We thank you so much for joining us here for today, day two of Citi's Global Technology Conference here live in New York City. Today's lunch keynote is with Dell Technologies. A few housekeeping items to be aware of. First, joining me on stage is the Chief Financial Officer of Dell Technologies, Tom Sweet. My name is Jim Suva and I'm the Tech Supply Chain Analyst.

This keynote is meant for technology investors and we will not be doing a company overview or canned presentations of slides, but it's meant to be a lively interactive discussion with Tom and myself. Due to time commitments and various logistics, we will not be having audience and questions, but if you do have a need, feel free to email or send them to me and I'll try to get to them.

We would also like to reference you to the Dell Investor Relations site which has a lot of information about their SEC filings, reporting segments, recent Investor Days that they've had, quarterly earnings, and Safe Harbor statements. To kick things off with, I would encourage you to continue to enjoy your lunch as we do this Q&A up here and this interactive discussion, and again, you can email myself, jim.suva@citi.com if you have a burning question and I'll try to get to it.

So Tom, first of all I want to thank you and your Investor Relations team for joining us here today, but I'd like to start off with an overview question talking a little bit about Dell Technologies and the changes that have happened over the past years. Recently you've gone through a lot of changes. You were first a public company, then a private company, now again a public company. You've also made several acquisitions with a family of controlled companies. How should we think about these changes and what should investors expect for your strategy for the next few years?

Tom: Well thanks, Jim, and it's great to be here with you. As you've highlighted, we've clearly been on a transformation journey with the company over the last number of years, all the way back to perhaps when we started and did the LBO. Given our framework we determined that we needed to do some transformation work within the company in terms of repositioning it, through the EMC transaction and then on forward.

I think the underlying frame you ought to think about is that as we think about where technology is headed and our positioning within that solution set, what we've always tried to do and what Michael has done a nice job of doing, is anticipating what the trends are in the industry and how do we best position to take advantage of it and help our customers.

In 2016, we merged with EMC. That was all about – if you think about the rise of data, if you think about the need for how do you manage data, service data, consume data, we knew that we needed more capability, more IP in that area which led us down the path of EMC and VMware. Since then you've seen us restructure the company and continuing to optimize capital structure. You've seen the recent VMware Pivotal announcement where we thought that we agree with VMware that the Pivotal asset is probably best packaged together with the VMware capabilities.

Again, I think what you're continuing to see us do is try to find those vectors and activities that make sense to us and that create value.

Jim: It's pretty interesting because it seems like Dell has now become a full service of almost anything an enterprise needs, yet the competitive landscape over the past few years, some of the companies have broken up, whether it be HP, Xerox, some of the others. I used to cover EMC and then you acquired them. I've seen that Dell has actually broadened this portfolio and some of the others have taken a different strategy.

Tom: From our perspective, the feedback we get from customers has been, we'd rather have less key suppliers, strategic partners than more. With the complexity in today's environment in terms of the technology landscape, I think companies are looking for fewer partners that they can do more with. That's been the feedback we get. The actions and the progress that we've seen with our customer base would suggest that that's true.

I do think that our ability to offer a broad set of capabilities to our customer set across a variety of different lines of business or capabilities has been a key differentiator and a key strategic advantage for us. I would point out, if you think about what's happened, just the market dynamics over the last year, Jim, you and I were talking. A year ago everybody was talking global synchronized growth. The world was good. Everything was on the bright and rising and then fast forward a year and what do we have?

We've been in tariff conversation for 10 months. We've been talking Brexit now for two years. We're worried about potential GDP slow down. The market dynamics have changed. Clearly a year ago the server demand, for instance, was quite strong. This year it's softened. What you've seen us do is react to that and pull the growth levers that make sense to pull. You see us push on VMware. You see us driving client growth. You see us doing some of the things with our portfolio to ensure that we find the growth levers that are appropriate.

Jim: Tom, you actually spoke about the next two items I wanted to address. Maybe we'll take them one at a time, the first being demand, the second being tariffs. On demand, a lot of companies, whether it be NetApp and others talked about a drastic slowdown, and your reported earnings last week clearly surpassed expectations on every variable, reporting segment, expectations. Congratulations to you. Let's focus on the demand environment. What are you seeing? Is the enterprise slowing down broadly? Is Dell just outgrowing others, because your results and outlook was starkly much more positive than a lot of the other peers in the industry?

Tom: I think what we see when we look at the demand environment around the globe is that there are certain – certainly there are areas that are a bit softer than others, but there is still demand out there. US, the North America market is generally pretty healthy. Obviously, we looked at APJ. Japan's been quite healthy for us. APJ in general has been a good market. China's been an area of softness and there's general economic dynamics going on in China and then the political dynamics are clearly, there's some headwinds there as well.

Net-net, what we see is that yes, if you go through the various pieces of the business, we've got a broad portfolio and we've got a diverse portfolio. The fact that server demand, as we talked about, might be a little softer this year, storage demand is holding up reasonably well from what we see. We like our capabilities. We like the solution sets we have. Clearly the client business, our CSG business on the back of a Win 10 refresh cycle is quite strong and we reported record shipments, record revenue, strong profitability last week.

It is a bit more of a, there's a bit more dynamic to the environment this year, but overall there's still growth out there and it's our job to find that growth and optimize that growth for the company.

Jim: Tom, Dell's a very global company and there are some factors that a year or two ago we probably wouldn't be talking about on the stage here today, but I think it's important we at least bring up tariffs. You source a lot of components from lots of parts of the world. You ship items, finished goods, in process inventory and things to various parts of the world, assemble and reship them other places. How should we think about how tariffs has an impact to your costs, has an impact to your demands?

Tom: It's been a pretty dynamic environment and it's been a bit choppy to try and plan your way through it given some of the shifts that we've seen in policy. I think in general I would fall back and tell you, Jim, that we have a global supply chain. We have manufacturing capabilities spread across the globe. It's no secret that the small electronics supply chain generally moved towards Asia, moved towards China 20 to 25 years ago. We've gradually had to, as a result of some of these tariff dynamics, we've had to reallocate where we're building certain capabilities and we're building certain end user demand items.

We've been able to do that. I'll give our team a lot of credit for their ability to navigate through that. It has added some costs to the supply chain as a result of that, principally around logistics costs. I think in terms of our ability to mitigate some of the broader effects of tariffs, I think the team has done a pretty reasonable job on that. We're continuing to pay attention obviously to the, where we are from a tariff conversation. We would like the two governments to find a solution. We think free and fair trade is the right answer in the long run, but in the meantime we've got to navigate the environment that we're given. I think we're well positioned to deal with it.

Jim: As Chief Financial Officer at Dell, you have a lot of asks from your team, how to spend the time, how to spend the money, where to allocate resources. So far we've talked about tariffs, we've talked about a server slowdown, we've talked about storage that is strong, we've talked about Dell having an end to end solution on many different things. As CFO, what's really the top priorities that you have?

Tom: I think about it like this, our job here is to maximize shareholder value over time, and so I think we start, at least Michael and I start with the framework of how do we run the company in the context of we run for growth. In terms of relative growth we want to grow faster than the market. We want that growth to be profitable. We want to grow operating income and EPS at a rate faster than the growth rate, the revenue growth rate, and we want to generate cash.

That's the basic premise we set. From that then you say, okay, our focus areas have generally been about how do we drive the capability, the company forward? How do we ensure that our coverage models for our go to market coverage models are appropriate? How do we continue to invest in the solution capability and the R&D capability? You do that with a backdrop of a capital allocation policy right now that is principally focused on delevering the balance sheet even as you're investing in the business as we pay down the debt that we took on as part of the EMC transaction.

The balance we're trying to drive is broaden the company capability. Make sure we're driving the solution capability that our customers are asking us for, even as we, capital allocation wise, we're paying down debt and investing back in the business. Couple that with Michael's directive of I want the organization in terms of the Dell Technologies family to be a much tighter, much more integrated solution capability and go to market capability because, again, that's what our customers are asking us for.

Jim: So far we've done bigger picture Dell things. What I'd like to do now is maybe journey down your reporting segments, go into the segments a little bit. We call it CSG, the client solutions group. Can you talk about what your underlining assumptions or expectations is for that segment. As I look back at your reports that you just did last week, PCs you've gained share. The profitability of the segment was very, very strong. A lot of moving parts and it seems like the top three or four PC companies are continuing to gain more and more share in a very mature market.

Tom: I don't think it's any secret, and you're right. I mean, if you look at the top three PC companies at this point which is ourselves, HP, and Lenovo, I think we're roughly, the three of us have roughly 63 or 64 points of share. We think that that consolidation trend continues. That's a tailwind for those bigger players. I think you couple what you saw last week around this, we've been very focused on how do we build our commercial client business in terms of our orientation in the PC space.

We're principally commercially oriented, roughly 73% commercial revenue, 27% consumer. Why? Because the profit pool in commercial is much more interesting to us. Our reach, our coverage model with our direct selling organization, some 40,000 sellers, we have the ability to reach in and drive the velocity and demand. From a broader perspective you see that there is a Win 10 refresh cycle going on now where if you were to listen to what Microsoft would say, I think we're roughly 60% of the way through that refresh cycle.

We've been very pleased with what we've seen in terms of the business, the performance of that unit. Last week we reported $11.7 billion of revenue, 6% revenue growth, record shipments, record revenue, very strong profitability. Obviously**,** we're also writing down, there's a component cost curve that has been deflationary which has been helpful. There's a lot of things that have lined up to make that business as successful as it's been this year. We're optimistic about that business as we go forward.

Jim: You mentioned the Windows refresh cycle. Since you brought it up maybe we can ask a little bit about it. Do you think that's helping a lot or would be immaterial, and I guess the concern is come January or February of next year when the end of life support happens for some of the older Windows products. All of a sudden then does it end up falling off a cliff from a demand perspective? I'll tell you at Citigroup, we're hiring people. When they start their job they get a PC and all these other support things with it. Probably also some more EMC storage and other things we'll dive into later. It seems like employment is quite strong and helping with that, or are we facing a pull forward in demand that's happening now that you're concerned about come 2020?

Tom: I think there's no secret, Jim, that we're clearly in this refresh cycle which is, there is a tailwind as a result of that. I will tell you though, that as we think about the trends in the business even post-Win 10, we gradually think that Win 10 refresh cycle flattens out as you get into next year. There are growth vectors within the business from our perspective, the PC business. The consolidation trend that we talked about continues. There is a workforce transformation happening with many businesses around the globe where five years ago it was all about hey, I need as many of these $500 notebooks as I can get. Today's worker, today's modern worker in many respects wants a better piece of technology, thinner, sleeker, the ability to work mobily from various locations, and the companies are making choices to spend more money on technology to put better technology in the hands of their workforce, obviously because of productivity.
They want a higher productivity.

That trend we think continues and we're seeing that trend. There's also growth vectors around as we think about opportunities in the customer base with customer base expansion that we've been driving and the cross sell opportunities, opportunities in small business, medium business for growth. And then in our consumer business, although we're principally commercial, we're very focused on consumer direct in the top 11, the 12 countries around the globe and we think there's opportunity there to expand that business as well.

Look, I mean we'll have to work our way through it as we get into next year, but the PC space is still a big market. It's 250 million units a year. It's not going away. It's all about how do you take advantage and position within that market.

Jim: Finally, before we switch over to your other business segments, you mentioned the item about component costs. Memory pricing has been coming down lower. Earlier today we had some storage companies talk about their view that they think memory pricing is lowering, the declines are actually going to be improving or something. What's your view on memory costs and the impact to margins that investors should be thoughtful of, because when the costs fluctuate a lot it does impact your margins.

Tom: In certain elements of our business we're clearly more sensitive to component costs than in other pieces of the business. If you recall last year, we were fighting a memory inflation for most of the year and it turned late last year and we've been in a deflationary environment for memory and NAND (?) and other component costs and that's been helpful in terms of both pricing capacity, pricing power, as well as, quite frankly, P&L performance.

We said on the call last week that we expected memory or component deflation to slow in the second half. In fact, we talked a lot about it on the call that the rate of deflation first half to second half would be dramatically slower. In some instances**,** we see inflationary dynamics late in the year in areas like NAND for instance. It will slow. The question then becomes how does that affect pricing over time and how do you adjust pricing to react to that?

Our direct model is one that when prices turn up we see it first because we hold less inventory, so we typically see the impact of that from a negative perspective, and when prices turn down or component costs become deflationary we tend to see that first as well because of the lower inventory levels. We've seen that. We clearly have driven some benefit from it. That's why we talked about in the phone call last week with our earnings call around hey, look, as we go through the rest of the year we do expect to see some slowdown and deflation which is going to result probably in some margin compression. We talked about that on the call. Now, we'll price properly. We'll make sure that we get the P&L framework to where we want it, but I think that's the dynamic that we're seeing right now.

Jim: I think it'd be good to switch over to your other reporting segment which we call ISG. For those in the room as a reminder, it's the infrastructure solutions group. I tend to think of servers, enterprise storage, as well as software and security and these areas. Can you talk just a little bit about the trends both favorable and unfavorable in that area?

Tom: I think from an ISG perspective you break that down into the two biggest piece parts of that which is storage and servers. Let's start with storage. We see storage demand, it's up 4% for the first half of the year. We've taken share now for five straight quarters. I think we feel pretty good about the storage market. It's not double digit growth, but it's not double digit negative. It's relatively in that +2/-2 type range, which is fine. We're number one share in external arrays and software defined and all-flash. We're bigger than two, three, and four combined and we've invested quite a bit over the last two years in both getting the solution capability where we want it and the coverage model where we want it.

We're optimistic about storage as we think about it as we go through the back half of the year, not that there's not competition and there's going to be, we've got to make sure that we're executing the business model, but I think we're pleased with what we see there. The demand environment seems to be holding up with what we see today. The server side's been a different issue. I mean, there was a huge amount of demand for servers last year. We had a wonderful year in server growth and server revenue last year.

The environment's changed as we talked about earlier. There's some areas of softness out there. We see softness in China right now. We see some softness in large North America enterprise space. On the other hand**,** we've seen good demand in some of our other countries and in other customer segments and so it's a bit of a mixed bag. Overall, IDC is calling server market down clearly through Q2. Our expectation is it remains relatively soft through most of the year.

We are optimistic talking to our supply chain that perhaps we begin to see some type of perhaps recovery late this year and on into next year if you look at some of the IDC forecasts and interactions with the supply chain. It's been a tougher year, and as a result of that**,** we have adjusted our model appropriately I think. We have been more selective in the business that we've taken given some of the price dynamics we've seen out there and the pricing competition which hasn't made sense to us in a lot of areas.

China has been soft so we have adjusted our business model in China to deal with that. I think that's part of what we have to do as we navigate the environment is to adjust appropriately and take advantage of the opportunities as they exist. Outside of China, though, server demand actually grew in Q2. It was up 1% year over year which is, clearly it's not double digit growth like it was last year, but there is growth out there. It's our job to find that growth and ensure that we optimize it.

Jim: Has it been a slowdown due to end demand slowing down or prior months and quarters of over ordering by customers and they just have to digest it, or is it just the ASPs you're being impacted so much because pricing of memory is falling down and that greatly impacts the price of a server or storage system that's being installed?

Tom: I think it's, I don't have perfect visibility here. As we talk to the supply base, as we talk to our customers and we look at the industry, there clearly is some element of working your way through the supply that was bought a year ago or was bought last year and the consuming of that. There is a little bit of softness in the environment. What we see not so much are projects or opportunities being postponed or cancelled, but what we do see is an elongated cycle in some instances in terms of the buying cycle.

That's been a bit of a headwind for us. On your ASP comment, our ASPs are actually up. They're up something like 13% year over year, where we've got thicker servers going out, there's more memory content in them, which we're encouraged by because what that tells us is that these servers are being used for higher value workloads, AI analytic type calculations that we think, so we're deeper into the datacenter. ASPs are up. There is unit softness as we talked about.

Jim: How should we also think about the profile of the margin impact from all these various different things? Should we be focused on percents of margins, dollars of margins? As you as CFO, we talked a lot about those variables, about memory, pass through, non-pass through, benefits up and down. How should we think about things, dollar versus margins and timeline?

Tom: I'm a CFO so dollars matter more to me than percentages matter more to me. I want to see gross margin dollar expansion. That's what we're all about because that generally translates through the P&L into an operating margin expansion. We're looking for as you drive growth, as you're out there capturing new opportunities, are you driving incremental gross margin dollars? Obviously**,** there's a percentage framework there bet (?) because you want to make sure that those margin dollars make sense relative to the opportunity. We generally run the business on a margin dollar framework versus a percentage framework.

Jim: In the past year or so there's been a tightness for CPUs, especially by Intel, and also Dell, I believe you have an overweight position in enterprise and an underweight position in consumer or household PC items. I assume you've probably been allocating your allocation to the higher profit items, or maybe even enterprise or to the consumer part of maybe gaming or some of these higher things. Is that accurate and if so, when the supply becomes more readily available of these chips, how should we think about your go to market? Are you going to be a little more aggressive? Are you giving up a little bit of share right now that you could have gotten, or you really truly want to stay focused in gaming and the enterprise side?

Tom: Look, I'll go back to how we run the PC business, which is we are focused on the commercial side of the business. Yes**,** there has been a shortage if you will of CPUs and chipsets, so the rational business person is going to allocate those chipsets to the higher value opportunity, which is commercial client in our instance. That's what we've been doing and to the upper end of the consumer space, the high end notebooks, the gaming notebooks, gaming machines. That's the play we've been running.

That chipset issue, the shortages I think is something that we're still working our way through. That's a day to day thing that we continue to work with Intel on. As we go forward and as you get through this cycle you should not expect us to go, okay, now that chipsets are plentiful, let's go drive a bunch of low margin, high volume type retail or consumer boxes. That's not the play we're going to run. We're interested in ensuring that we're focused on those higher value opportunities.

There is some of that clearly in consumer with the high end consumer, the consumer direct, the gaming opportunities that are there, but we spent the last six quarters stepping back from low margin, no margin North America retail type business, so you won't see us go back in that direction.

Jim: As CFO, various business segments or your subsidiaries are all asking for investments, capital, cash. How should we think about your cash flow, your uses, where you're going to put it? I know you talk about debt pay down. I think you mentioned $4.8 to $5 billion if my numbers and memory's correct. How should we think about your priorities for use of cash?

Tom: Our capital allocation policy is unchanged. Roughly two-thirds of our capital is being focused on delevering the balance sheet. The remainder of that is generally being focused on reinvestment back in the business. You are right. There's a never ceasing, never ending demand for investment dollars from the various businesses, but it ultimately comes back down to what's the return, what's the ROIC on that thing, what's the return on capital, and what's the payback period?

We have hurdle rates around, hey, before I would invest do you meet the minimum hurdle rate? If you tell me you're going to pay it back in five years you're not going to get any money because I don't believe you. The payback period has to be relatively reasonable so to speak. Our primary investment framework right now is we have invested heavily in solution capability and we've invested heavily in go to market capacity which we think are two big levers for us as we think about positioning the business.

The solution capability has been a lot of work that's been done with the Dell/EMC infrastructure business with VMware, for instance, as we've put integrated solutions together whether that's our hyper converged platform, whether that's the cloud technology platform, the cloud platform that we just recently announced, so a lot of work's gone into that area. And then in the go to market there's just been, with the expanded coverage models to try to better serve our customers and reach more customers and I think that's been reasonably successful as well.

Jim: Most people in the room are aware that Dell stock trades at a discount to its peers.

Tom: Yeah, I'm aware of that, too.

Jim: I'm sure you and Michael have that discussion on a regular basis. What do you attribute the reason for that discount and how do you feel about it or what are you doing about it?

Tom: There is a, I'll say it like this, the big three themes that come back to us as we talk to investors and to the banks are around you have a level of leverage that a lot of the equity environment is not used to and so getting the leverage down on the balance sheet would be, is a key item in how you try and drive down that discount. I think we're a complex story, and I've heard that time and time again. We're a $90+ billion company. We're a controlled company. We have public subsidiaries and VMware and Secureworks and Pivotal, which probably soon will not be a public subsidiary.

It takes time to learn our, what is Dell Technologies and there's only so many hours in a day. There's this whole theme around how do I think about a controlled company? How do I think about that risk profile? There's a number of things there that are out there. Our job, I think my job is to make sure everybody understands that the ownership interest, the equity interest are aligned here. Michael is a capitalist. He's about long term shareholder value creation. All the equity has an equal amount of – we all share equally in the value creation opportunity.

We know we are focused on delevering the balance sheet as we march back towards investment grade. We want to get that done. We're working on, we've leveled out a lot of the maturity stacks and the debt profile. We'll continue to work on that. And then it's around how do we drive and create value? How do we create value as a company through the execution of the business model and making sure people understand and are clear about what our strategic framework is and where we're headed.

Those are the areas that we're focused on. I can't control the day to day, what's the stock going to do today. What we can control is let's take the fundamentals and improve the fundamentals of the business. Let's delever the balance sheet. Let's continue to grow. Let's continue to generate cash. I think over time that value creation opportunity will become apparent.

Jim: Those efforts were actually very clear and manifest in this earnings reporting season where, again, you've gained share and outperformed your peers. I did look at your one on one schedule and I got to apologize. It's not one on ones, it's everybody team up and beat up on Tom after the schedule. That being said, what are the one, two, or three, whether it be misperceptions or most common question you get asked in front of this large packed room audience that maybe you want use the opportunity to clarify?

Tom: I think the themes that we're talking about today are a lot around some of the macro themes around how you think about hardware demand over the coming six months to next year? What are the things that we're watching? We get lots of questions on, okay, what happens post-Win 10 in the CSG space? What's the catalyst for growth there? We've gotten a number of questions around the capital allocation strategy around is it delever now? How do you think about shareholder returns? There's been those types of questions.

I think just wanting to understand what's the strategic framework as we continue to work closely with VMware and some of the other family of companies within the Dell Technologies family in terms of what's perhaps the end game? The end game is simply we're going to continue to drive more integration, more integrated solutions, more integrated go to market. That's what our customers are asking us for. Have a simpler engagement model with the customer in terms of they don't

want to fish through the family of companies. They want one sort of unified approach, and so we'll continue to work on that.
The receptivity I would say by our customer base to what we've been doing over the last couple years has been quite strong as evidenced by the growth. We're just trying to make sure the investors here at the conference understand what we're trying to do as a company and we hear you in terms of some of the concern around the leverage ratios, but I think we've proven that we can manage our way through the leverage and we'll continue to work that down and try and take that perceived worry off the table and continue to move the company forward.

Jim: I believe you have an Investor Day coming up in New York later on this month to help clarify some additional questions.

Tom: We're going to spend some time at that Investor Day on, we're going to have our head of strategy spend some time with the group on here's our strategic framework and how we're thinking about. Here's where we're headed as a company. Jeff Clarke, who's our Vice Chairman and runs our, is the P&L owner for our client business and our infrastructure business as well as head of the product group is going to come up and talk about solution capability and what are we doing as we think about the evolution of our solutions. I'll be up to talk a bit about the financial framework as we go forward and how we're thinking about that.

Jim: During this keynote, just so you know, I got dozens of emails from those in the lunchroom here today and I just want to let their Investor Relations teams know they're going to get flooded and they can consider which of those they want to answer during the upcoming Investor Day because I didn't want to play favorites about who got asked which question. I sincerely appreciate your questions, but I got overwhelmed with them literally, and we'll send those to your team and we'll hear more from you at that Investor Day. And with that, I'd personally like to thank Dell Technologies for coming to Citi's Global Technology Conference. Thank you.

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