TRANSCRIPT

DELL - Q4 2023 Dell Technologies Inc Earnings Call

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CORPORATE PARTICIPANTS

Anthony Charles Whitten *Dell Technologies Inc. - Co-COO*

Jeffrey W. Clarke *Dell Technologies Inc. - Co-COO & Vice Chairman*

Michael Saul Dell *Dell Technologies Inc. - Chairman & CEO*

Robert L. Williams *Dell Technologies Inc. - SVP of IR*

Thomas W. Sweet *Dell Technologies Inc. - Executive VP & CFO*

Tyler W. Johnson *Dell Technologies Inc. - Senior VP & Treasurer*

CONFERENCE CALL PARTICIPANTS

A.M. Sacconaghi *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

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

Amit Jawaharlaz Daryanani *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

David Vogt *UBS Investment Bank, Research Division - Analyst*

Erik William Richard Woodring *Morgan Stanley, Research Division - Research Associate*

James Dickey Suva *Citigroup Inc., Research Division - MD & Research Analyst*

Krish Sankar *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Kyle P. McNealy *Jefferies LLC, Research Division - Equity Analyst*

Samik Chatterjee *JPMorgan Chase & Co, Research Division - Analyst*

Shek Ming Ho *Deutsche Bank AG, Research Division - Director & Senior Analyst*

Simon Matthew Leopold *Raymond James & Associates, Inc., Research Division - Research Analyst*

Wamsi Mohan *BofA Securities, Research Division - MD in Americas Equity Research*

PRESENTATION

Operator

Good afternoon, and welcome to the fiscal year 2023 fourth quarter and year-end financial results conference call for Dell Technologies Inc. I'd like to inform all participants, this call is being recorded at the request of Dell Technologies. This broadcast is the copyrighted property of Dell Technologies Inc. Any rebroadcast of this information in whole or part without the prior written permission of Dell Technologies is prohibited. (Operator Instructions)

I'd like to turn the call over to Rob Williams, Head of Investor Relations. Mr. Williams, you may begin.

Robert L. Williams - *Dell Technologies Inc. - SVP of IR*

Thanks for joining us. With me today are Jeff Clarke, Chuck Whitten, Tom Sweet and Tyler Johnson. Our earnings materials are available on our IR website, and I encourage you to review our materials and presentation, which includes additional content to complement our discussion this afternoon. Guidance will be covered on today's call.

During this call, unless otherwise indicated, all references to financial measures refer to non-GAAP financial measures, including non-GAAP revenue, gross margin, operating expenses, operating income, net income and diluted earnings per share. A reconciliation of these measures to their most directly comparable GAAP measures can be found in our web deck and our press release. Growth percentages refer to year-over-year change unless otherwise specified.

Statements made during this call that relate to future events and results are forward-looking statements based on current expectations. Actual results and events could differ materially from those projected due to a number of risks and uncertainties, which are discussed in our web deck and our SEC filings. We assume no obligation to update our forward-looking statements.

Now I'll turn it over to Chuck.

Anthony Charles Whitten - *Dell Technologies Inc. - Co-COO*

Thanks, Rob. We are pleased with our FY '23 execution and financial results given the macroeconomic backdrop. FY '23 was ultimately a tale of 2 halves with 12% growth in the first half and revenue down 9% in the second half as the demand environment weakened over the course of the year. Net, we delivered record FY '23 revenue of $102.3 billion, up 1% on the back of 17% growth in FY '22, record OpInc of $8.6 billion, up 11% and record EPS of $7.61, up 22%. ISG, in particular, had a strong year with record revenue of $38.4 billion, including record revenue in both servers and networking and storage and record operating income of over $5 billion.

Importantly, we are structural share gainers and continue to outperform the industry. We expect to gain over a point of share in mainstream server and storage revenue when the IDC calendar results come out later this month. In servers, we remain #1 in the market and have gained 9 points of mainstream server revenue share over the last 10 years. In storage, we are far and away the industry leader, bigger than #2, 3 and 4 players combined and have gained 4 points of share in the key midrange portion of the market over the last 5 years. And in PCs, we gained over 140 basis points of commercial PC unit share in calendar '22, our 10th consecutive year of share gains.

Focusing on Q4, we again proved our ability to deliver against our commitments and execute no matter the market environment. We delivered Q4 revenue of $25 billion, down 11% with operating income of $2.2 billion and diluted EPS of $1.80 driven by strong ISG performance and disciplined cost management.

ISG revenue was $9.9 billion, up 7% with record profitability. ISG has now grown 8 consecutive quarters, and our end-to-end business model has proven to be a demonstrable competitive advantage in this changing environment. We've enhanced our relevancy with customers as spending priorities shifted from CSG to ISG over the course of the year, and we positioned our business to capture growth where it materialized in the IT market.

Specifically in ISG, we delivered record storage revenue of $5 billion, up 10%, including demand growth in PowerFlex, VxRail, Data Protection and PowerStore. We are pleased with our momentum in storage. The investments we made over the years strengthening our portfolio are paying off and have allowed us to drive growth and share gain in what was a resilient storage market in 2022. We grew servers and networking 5% in a challenging server demand environment by optimizing server shipments, along with strong attach and growing ASPs, a clear indication that we continue to sell deeper into customers' digital agendas.

Turning to CSG. The PC market remains challenged. From a historic 2021, the PC market slowed markedly in June and experienced a sharp decline in calendar Q4. Consequently, our fiscal Q4 CSG revenue declined 23% to $13.4 billion. It was a continuation of trends we've seen in recent quarters. Commercial revenue fared better than consumer, down 17% as customers delayed PC purchases in the face of macroeconomic and hiring uncertainty. Consumer was down 40%.

Given the decline in revenue, CSG operating income was $671 million or 5% of revenue, primarily driven by descaling with revenue decreasing faster than OpEx. We are seeing increasing competitive pressure and elevated industry channel inventories, but we continue to maintain pricing discipline, execute our direct attach motion and focus on our relative performance in the most profitable segments of the PC market.

In this challenged and uncertain environment, we've stuck to a playbook that has served us well across multiple cycles, staying customer-focused, driving differentiated relative performance, delivering against our innovation agenda, managing our cost position, maintaining pricing discipline and sustaining our unique and winning culture. In short, we have focused on what we can control.

And in Q4, we continued to take decisive action, extending our existing cost controls, pausing external hiring, limiting travel and reducing outside services spend. We reduced our operating expenses, excluding compensation and benefits, by 5% versus last year, normalized for the extra week in the quarter. We also made the difficult decision to reduce our workforce by an additional 5% as announced in February. We will continue to stay disciplined in our expense management as we navigate the current IT spending environment.

In Q4, we also advanced our innovation agenda. We launched our next generation of PowerEdge servers with significantly enhanced AI and machine learning capabilities and improved energy and cost efficiency for data center, cloud and edge environments, including new purpose-built XR servers for telecom, Open RAN and mobile edge use cases.

At Mobile World Congress this week, we announced new solutions and partnerships that will enable the telecommunications industry to accelerate the adoption of open network architecture, including Dell Telecom Infrastructure Blocks for Red Hat, an integrated solution specifically engineered, validated and supported by Dell to help network operators run their telecom workloads more efficiently.

And we continue to lead in defining the next era of hybrid work solutions. At CES, we made announcements in a number of areas, including high-margin peripherals that improve the employee experience like our premier collaboration keyboard with dedicated touch controls to easily manage Zoom calls and a series of new monitors, including a 32-inch ultrasharp display with 6K resolution. We're proud of the substantial innovation that we've driven in all of our businesses in FY '23, and we have more exciting announcements coming in May at Dell Technologies World.

Let me conclude by offering some brief observations on the demand environment. The broad caution in the IT spending environment that we started calling out in Q2 persists as customers continue to scrutinize every dollar in the current macro environment.

Exiting FY '23, we saw select growth in verticals like financial services, transportation and construction and real estate. However, we've continued to see demand softness across most other verticals, customer types and regions. Underlying demand in PCs and servers remains weak, and we are seeing signs of changing customer behavior in storage. Though Q4 was a very good storage demand quarter, we saw lengthening sales cycles and more cautious storage spending with strength in very large customers, offset by declines in medium and small business. Given that backdrop, we expect at least the early part of FY '24 to remain challenging.

That said, our fundamental belief in both the long-term health of our markets and the advantage of our business model haven't changed. Data continues to increase exponentially in both quantity and value, and customers continue to see us as trusted partners, helping them navigate the complexities of hybrid work, multicloud and the edge.

Unlike in prior cycles, customers are not outright stopping digital investments. They continue to plan projects even as they scrutinize spend. This gives us confidence that we will see a rebound in spending and a return to sequential growth later this year. We're industry leaders in our categories, we're central to the technology agendas of our customers, and we have a track record of meeting our commitments and improving our strategic position no matter the environment.

We plan to stick to the playbook that served us well in FY '23 and prior cycles. Control what we can control, stay disciplined and agile, invest for the long term and meet our commitments to customers, team members and other stakeholders. We've positioned the business to navigate the current uncertainty and for the inevitable rebound.

Now over to Tom for the detailed financials and guidance.

Thomas W. Sweet - *Dell Technologies Inc. - Executive VP & CFO*

Thanks, Chuck. We're pleased with the full year and Q4 P&L performances given the macro environment. As Chuck highlighted, we set new records this year and have continued to build on our industry-leading positions.

Turning to our Q4 results, which, as a reminder, included a 14th week. We delivered revenue of $25 billion, down 11% with strong ISG performance, particularly in storage. Currency remained a headwind and impacted revenue by approximately 410 basis points. Gross margin was $6 billion, up 3% and 23.8% of revenue. Gross margin rate was up 3 points due to a mix shift to ISG, component and logistics cost deflation and pricing discipline.

The pricing environment in ISG was generally consistent with what we have seen in recent quarters, while in CSG, we saw areas of pressure, particularly in consumer and in some commercial markets where, in some cases, our competitors were working to reduce their channel inventory. We continue to be disciplined in our pricing execution and within CSG, driving our direct model with a focus on attaching services, software, peripherals and financing.

Operating expense was $3.8 billion, up 5%, driven by an extra week in our quarter and 15.1% of revenue. In Q4, we recorded a $281 million charge to our GAAP operating expense for our previously announced workforce reduction. Operating income was $2.2 billion, down 1% and 8.7% of revenue with the extra week of operating expenses roughly offsetting an extra week of gross margin.

Our quarterly tax rate was 26% and 20% for the full year. Q4 net income was $1.3 billion, down 5%, primarily driven by slightly higher interest expense, including a 14th week in the quarter and a slight decrease in operating income.

Fully diluted earnings per share was $1.80, up 5% due to a lower share count. Our recurring revenue is approximately $5.6 billion a quarter, up 12%, and our remaining performance obligations, or RPO, is approximately $40 billion, down due to a reduction in backlog, partially offset by an increase in deferred revenue. Deferred revenue was up primarily due to an increase in service and software maintenance agreements.

Now turning to our business units. In ISG, we delivered our eighth consecutive quarter of growth. Revenue was $9.9 billion, up 7%, driven by strong storage and server and networking performance. Storage revenue was a record $5 billion, up 10%, and servers and networking revenue was $4.9 billion, up 5%.

ISG operating income came in at a record $1.5 billion or 15.6% of revenue, up 360 basis points as we benefited from cost favorability, pricing discipline and revenue growth, including a higher mix of storage software.

Our Client Solutions Group revenue was down 23% to $13.4 billion primarily due to continued softness in both the commercial and consumer PC markets. Commercial revenue was $10.7 billion, down 17%, and consumer revenue was $2.7 billion, down 40%, though average selling prices continued to trend higher in both businesses. CSG operating income was $700 million and 5% of revenue.

As we have historically seen when the macro environment has slowed, customers' interest in consumption and financing models that provide both payment flexibility and predictability has increased. Our Q4 Dell Financial Services originations were $3 billion, up 12%, with strength across all geographies. DFS ending managed assets reached $14.7 billion, up 9%, while credit losses remained at historically low levels, given the strength of our portfolio, which is over 60% investment grade. And we more than doubled the number of active APEX customers that have subscribed to our as-a-Service solutions over the course of the year.

Turning to our cash flow and balance sheet. Our cash flow from operations was $2.7 billion in Q4 and $3.6 billion for the full year. Our strong Q4 cash flow was driven by profitability partially offset by a use in working capital. Within working capital, inventory was down $1.4 billion sequentially due to disciplined management and strong shipments at the end of the quarter. However, the inventory improvement was offset by a temporary increase in receivables driven by linearity of revenue in the quarter and a decline in payables given reduced inventory purchases and timing of disbursements.

Our commitment to improving working capital efficiency remains a priority as we continue to focus on unlocking capital within the balance sheet. We ended the quarter with $10.2 billion in cash and investments, up $3.7 billion sequentially driven by free cash flow generation and a $2 billion debt issuance, partially offset by $400 million in capital returns.

Our core debt balance ended the year at $18.1 billion, up due to the debt issuance. We intend to use part of the issuance proceeds to pay down the $1 billion maturity coming due in June and will consider using the remaining proceeds to prepay other debt in the capital structure over time.

Turning to capital allocation. We will continue our balanced approach, repurchasing shares programmatically to manage dilution while maintaining the flexibility to be opportunistic. In Q4, we repurchased 3.7 million shares of stock for $150 million and paid $236 million in dividends. And for the full year, we repurchased 62.4 million shares for $2.8 billion and paid approximately $1 billion in dividends.

As we highlighted in our press release earlier today and as part of our commitment to capital returns, we are raising our annual dividend from $1.32 to $1.48 per share, an increase of 12%, reflecting our confidence in our long-term business model and our ability to generate and grow cash flow over time.

Turning to guidance. Given the demand trends we saw last quarter, we expect Q1 revenue to be seasonally lower than average, down sequentially between 17% and 21%, 19% at the midpoint. Currency continues to be a headwind, and we are expecting a roughly 300 basis point impact to Q1 revenue. We expect the ISG business to be down sequentially in the mid-20s as we come off a seasonally strong storage quarter to Q1, which is typically a seasonally weaker storage quarter, and we expect CSG revenue down sequentially in the mid-teens. We will remain disciplined in our pricing and expect gross margin rates to be relatively flat sequentially.

For our tax rate, you should assume a 24% plus or minus 100 basis points for Q1 and for fiscal year '24. We expect our Q1 diluted share count to be between 737 million and 742 million shares and our diluted EPS to be $0.80, plus or minus $0.15, down sequentially, primarily driven by lower revenue.

For the full year, we continue to see a wide range of outcomes. We expect revenue to be down between 12% and 18% and down 15% at the midpoint of the range. Given Q1 guidance, this implies a return to sequential growth as we move through the year. We'll continue to be mindful of our pricing discipline and our cost structure, making adjustments as appropriate, depending on the environment while also continuing to invest in innovation.

Interest and other will be up approximately $200 million as we fund DFS originations in a higher interest rate environment. Netting this out, we expect diluted earnings per share of $5.30 plus or minus $0.30.

In closing, we delivered solid fiscal year '23 financial results. And over the last 3 years, we have now grown our revenue at a 6% CAGR and our EPS at an 18% CAGR. While there is near-term uncertainty, particularly in the first half of fiscal year '24, we have strong conviction in the growth of our TAM over the long term, and we remain committed to delivering our value creation framework with a revenue CAGR of 3% to 4%, a diluted earnings per share CAGR of 6% plus and a net income to adjusted free cash flow conversion of 100% or better over time.

We have returned approximately $3.8 billion of capital to our shareholders in fiscal year '23 through share repurchase and dividends and expect to return 40% to 60% of our adjusted free cash flow to our shareholders over time. Expect us to continue to be disciplined in how we manage the business in the current macro environment, focusing on what we can control and delivering for our customers. Now I'll turn it back to Rob to begin Q&A.

QUESTIONS AND ANSWERS

Robert L. Williams - *Dell Technologies Inc. - SVP of IR*

Thanks, Tom. Let's get to Q&A. (Operator Instructions) Let's go to the first question.

Operator

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

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

Congratulations on the good execution in a tough environment. Thinking about the guidance into the April quarter, I'm curious if you could help me unpack particularly the server business, what you're seeing as far as the demand environment thus far into the April quarter. And how do we kind of triangulate what you've seen from a pricing perspective, sustainability of that as we look at the deflationary elements of component pricing?

Anthony Charles Whitten - *Dell Technologies Inc. - Co-COO*

Yes. Aaron, let me start. The -- look, as we highlighted in the prepared remarks, we saw a continuation of the trends that we started calling out in Q2 and accelerated in Q3 in the server business with weak underlying demand. And frankly, it deteriorated over the course of the quarter.

The texture we would add would be -- the slowdown is probably most pronounced in the largest customers. Ultimately, our transactional business performed a bit better but was still declining. And the texture was we saw customers still digesting inventory, tightening budgets, stretching decision time lines.

Our win-loss ratio didn't change, and it was in line with historical performance. And as we said, we expect to gain share in Q4. So ultimately, this is the market going through a digestion cycle, not our performance.

As you said, our performance of 5% was driven by a couple of things. One was optimizing shipments in quarter, but the other was higher year-over-year revenue per unit performance. That was higher content rate of memory and SSD, higher services, good attach of our enterprise peripherals, sort of our direct sales motion in action.

Look, ultimately, we are seeing pricing pressure in all our business, and server is not immune. I'd just say we've expected that. We factored that into both our operational and financial plans, and we've factored it into the guidance going forward. So we anticipate in this environment continuing to see pricing pressure, but obviously, we're pleased with the content rate performance and ultimately, the performance of our attach business.

Operator

Our next question will come from David Vogt with UBS.

David Vogt - *UBS Investment Bank, Research Division - Analyst*

Maybe just a clarification on CSG. I know obviously, it's a difficult backdrop and you talked about sort of the pressure that you saw throughout the quarter and into the beginning part of this quarter. But I think I also caught you mention that it sounded as if ASPs were trending higher. Can you kind of discuss kind of what's driving that and where sort of inventory is for you guys? And how do you think the market inventory looks as we move through the balance of this fiscal year? When do you think we can get to a more normalized inventory position from an industry perspective.

Anthony Charles Whitten - *Dell Technologies Inc. - Co-COO*

Yes. Sure. So look, the CSG business, as you said, it continued to be challenged in the quarter. We won't repeat all the market data, but obviously, Q4 was one of the more challenging volume quarters in history. And both across the consumer market, which continues to be under real pressure where we're seeing significant amounts of inventory in the channel, a much slower China market. And the commercial business continues to remain challenged as those customers are delaying purchases, buying for immediate needs and tilting IT spending elsewhere.

We are seeing, from an inventory standpoint, elevated inventory levels. We obviously benefit in our business from much lower inventory levels, which you have seen consistently in our performance. But there's inventory in both the consumer business and the commercial business now.

Look, ultimately, the guidance that we've given in our comments on the year, we expect the business to return to sequential growth over the course of the year. But without calling specifically right now when inventory -- we'll get back in profile. It will be later in the year, certainly as we enter Q1, inventory is elevated.

Thomas W. Sweet - *Dell Technologies Inc. - Executive VP & CFO*

And maybe, David, just a couple of other points around ASPs. Look, we benefited from a higher commercial mix in Q4. We benefited from more notebooks than desktops, which carry a higher ASP. And we continue to benefit from our unique operating model, the direct model where we can attach peripherals, software and services, which I think continues to help us. And those businesses are very strong for us. And then if you look inside commercial, our Precision workstation business had a very good quarter on a relative basis, which carries substantially higher ASPs.

Robert L. Williams - *Dell Technologies Inc. - SVP of IR*

Next question, operator.

Operator

That will be from Toni Sacconaghi with Bernstein.

A.M. Sacconaghi - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I was wondering if you could just help with the bridge for particularly Q1 guidance since that sets the foundation for the full year. Historically, you're down about 7% sequentially. You're guiding for down 19%. How much was the extra week? How much was backlog drawdown in the quarter that you don't think replicates? And how much is your assumption for kind of incremental macro weakness because there's still a really big gap between being down 7% and being down 19%, and then you're calling for potentially normal seasonality thereafter?

And then can you also just address free cash flow? I think you're guiding for net income of $3.7 billion to $3.8 billion. Do you expect free cash flow realization to be better or worse than that number?

Thomas W. Sweet - *Dell Technologies Inc. - Executive VP & CFO*

Toni, let me sort of take the first part of that question on the walk from Q4 to Q1 revenue. So we printed $25 billion, and you're right, typically, we do see sequential sort of in that minus 7% to minus 9% range roughly. So how we think about it in the guide sort of works like this. So the 14th week provided roughly $700 million to $800 million of incremental revenue. So back that off. If you do the RPO deferred revenue math that we provided for you, you sort of get to a backlog adjustment, roughly about $2 billion to $2.2 billion. And then the incremental seasonality or the incremental weakness that we're seeing is sort of the remainder of that, okay? So that walks you down to the $20.2 billion.

So look, I mean, as Chuck mentioned in his opening comments, we are seeing that continued softness. Our expectation and how we have built our plan for the year says we recover throughout the year but we do expect Q1 to sort of have -- to be in that sort of zip code at this point in time.

And then on free cash flow, as you know, we don't guide free cash flow. But I think we would expect cash generation given the plan that we have with sequential improvement as you go through the year to improve cash flow. Tyler, I don't know if you'd add anything to that.

Tyler W. Johnson - *Dell Technologies Inc. - Senior VP & Treasurer*

Yes. No, I think that's right. I mean I guess the one thing I would add, recognizing we don't provide guidance, if you think about some of the dynamics that we had in FY '23, as we're thinking about next year, I do think that we should expect that free cash flow conversion to be better than what we saw in FY '23.

Operator

That question will be from Jim Suva with Citigroup.

James Dickey Suva - *Citigroup Inc., Research Division - MD & Research Analyst*

Great results, and thank you for being clear on the outlook. When we think about a softening demand environment in the year 2023 and your cautionary below normal seasonal for Q1, how should we think about capital deployment? Would you all be doing more stock buyback? You just increased your dividend, which is great. But how should we think about deploying capital in a year that's starting off more challenged? And of course, you're going through restructuring, so I'm conscious of that.

Thomas W. Sweet - *Dell Technologies Inc. - Executive VP & CFO*

Look, I think you should think about capital allocation like this for the year. We're committed to our long-term framework of 40% to 60% shareholder capital return over time. Obviously, we were -- we had an accelerated return in fiscal year '23, given the amount of share buyback we did. I would think about it like this. We raised the dividend 12% to $1.48 on an annual basis for the year. I think that provides a foundation as we think about our confidence in the long-term business model and long-term cash flow generation of the company.

From a share buyback, we don't forecast that, but I'm on the record of saying that we'll manage dilution from a share buyback perspective. And obviously, we'll continue to be opportunistic as we look at the -- where the share price is relative to other uses of our capital.

Operator

Our next question will come from Erik Woodring with Morgan Stanley.

Erik William Richard Woodring - *Morgan Stanley, Research Division - Research Associate*

I just want to touch on operating margins kind of for each segment. We saw each of them trend kind of in opposing direction, CSG lower than normal, ISG higher than normal. As we think about looking forward, is there any structural change that we should be thinking about? Particularly on the CSG side, should we be thinking about operating margin for this business now closer to 5% to 6%? Or is 6% to 8%, what you've been doing over the last few years, more likely, again, as we look past this near-term dislocation to more normalized times?

Thomas W. Sweet - *Dell Technologies Inc. - Executive VP & CFO*

Yes. I would say that I think you're in the ballpark on op margin over how we're thinking about it for the year to be blunt, right? I mean we did enjoy higher op margins over the pandemic period. But I think a more normalized view of -- in the range that you talked about is how we're thinking about the business for the year. Obviously, we're going to do all we can to maximize profitability while making sure that we drive relative performance and share as appropriate. So -- but I think you're in the frame -- you're in the ballpark on how you're thinking about it.

The ISG margins, look, we had a strong Q4. You think about the impact of all of the storage strength that we saw, clearly was very beneficial to the margin. I would highlight the fact that within that storage mix, we had a really strong mix of our own storage software IP, which is very helpful from a profitability perspective, and we expect that mix to continue to be helpful on a go-forward basis.

So look, I tend to think that we're probably back in sort of more normalized, a little bit couple of points less than perhaps we finished in Q4. As you think through the year, 200 to 250 basis points, something like that. But that's the chemistry of the P&L. We expect storage to be stronger next year, servers to be slightly softer in ISG and the CSG business to sort of generate the margins we talked about.

Operator

That question will come from Samik Chatterjee with JPMorgan.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Analyst*

I guess if I can just ask you for -- on the full year guide. You're guiding to about 12% to 18% decline in revenues. Can you share your thoughts about how you're thinking about that split between CSG and ISG for the full year guide? I know you gave some directional commentary on 1Q itself, but just wondering if you can sort of rightsize as to how to think about CSG and ISG. And when you talk about that wide range for the full year guide for the year, where is the bigger variable? Is it more on a CSG recovery? Or in your mind, is this more sort of contingent on how ISG pans out?

Thomas W. Sweet - *Dell Technologies Inc. - Executive VP & CFO*

Yes. I would say it like this. I would expect that as we look at the performance of the business units next year, from a growth perspective, they're generally sort of both in the mid -- sort of negative mid-teens in terms of growth rates for the year. Obviously, we guided to a midpoint of minus 15% or you can do the math, $87 billion. So they're generally on top of each other in terms of growth rates.

In terms of the variability, look, I mean, we're cognizant of the state of the macro, the uncertainty in the environment, and as Chuck highlighted in his talking points, there is a level of customer hesitancy out there at this point. So I do think that we built a plan that says that, hey, we expect the sequentials to improve as we go through the year. That's how we thought about the business.

One data point to think about, particularly with PCs is that if you go back and look over time at other recessionary periods, whether it's all the way back to the dot-com bust of 2000 or the great financial crisis of 2008 to 2009, in general, what you see is a period of decline in both client and servers of, say, 4 to 6 quarters worth of decline. And if we think about where we are -- it's not a perfect predictor, but if you think about where we are in the context of that sort of metric to where we are today, we're on the tail end of that. And so we're optimistic that as we go through the year, we'll see some lift in that.

And so look, I'm not going to probability weight where my risk is. I do think that -- I think we've got a solid plan that is focused on executing, and you can count on us to navigate the environment, and we'll be disciplined in how we do it.

Operator

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

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

I was wondering if you could clarify a little bit on the linearity of demand. It sounds like you had a pretty back-end loaded quarter given your comments on the receivables, but you're also talking about weakness here more than normal seasonal in 1Q. Can you talk about maybe what you saw happen to orders a little bit more granularly? What did you see in January? What did you see in February? And are you expecting order patterns to trend here in the near term?

Anthony Charles Whitten - *Dell Technologies Inc. - Co-COO*

Yes. Let me start and just tell you what we observed in Q4, which was -- we did see our -- as is typical, given our high storage quarter, linearity trend towards the back part of the quarter. That's not atypical for our business in Q4, particularly given the heavy storage mix and the seasonally strong storage quarter.

I would say that maybe versus historical norms, the server business also tended to trend a little bit more back-end loaded. As I mentioned in my earlier response, we did see deterioration over the course of the quarter of server demand. And to the extent that large bids or deals closed, they did tend to close in the back part of the quarter more than normal. So there was a little bit of uneven seasonality.

I don't know that we expect any material change sort of coming into our next quarter, and we certainly won't try to forecast linearity in the next quarter. I would say storage tends to be booked in the last portion of the quarter, that's very, very typical. Server was a little bit of an anomaly and, I think, reflects the cautious demand environment that we're navigating our way through.

Thomas W. Sweet - *Dell Technologies Inc. - Executive VP & CFO*

Chuck, let me add that -- and as we finished January, we obviously came to the end of a sales compensation cycle as well, which always tends to be a bit -- drive a bit more activity towards the end of the quarter. That's not unusual on a 6-month quota period. So that also sort of highlights that it was a bit more back-end loaded.

And so -- but Wamsi, in terms of trying to extrapolate that into, okay, how do you think about that demand trend for our linearity pattern for Q1, it's a different pattern in Q1. You're coming off of year-end budgets for corporates that tend to spend a bit more in the fourth quarter versus a seasonally softer quarter. And so it tends to be a bit more -- a little less back-end loaded, but that's hard to predict in this environment, to be honest.

Operator

Our next question will come from Amit Daryanani with Evercore.

Amit Jawaharlaz Daryanani - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

I guess I was hoping to talk a bit more about the ISG segment with the full year guide being down 15%. That seems to be more severe than I think what your storage or server peers are talking about. I think NetApp said flat storage environment. HPE, I think, raised the full year guide actually right now. So I'm just trying to understand, what are you seeing that's driving a much more tempered outlook versus your peers?

And as you think about this down 15% expectation in ISG, can you just [slice] the servers versus storage? Or are you seeing share gains reverse somewhere? Just any clarity that would be helpful because it seems a bit more severe than what IDC, Gartner or your peers are saying.

Thomas W. Sweet - *Dell Technologies Inc. - Executive VP & CFO*

Yes. I would say I can't speak to what others have said about their businesses. All I would tell you is that as we think about the trends and what we expect is that we would expect servers to be softer than storage as we go through the full year, right, with probably more pressure on the front half on servers than on the back as we go through the year. We do expect storage to hold up better. Yes, I'm not going to do the split, but that's our general thinking. That's what we see. If it's stronger than that, great. But that's our expectation right now about how we plan the business is on that sort of framework.

Amit Jawaharlaz Daryanani - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

Sorry, I was just going to say, you don't expect share gain to reverse course or any of that is embedded in these expectations, right?

Anthony Charles Whitten - *Dell Technologies Inc. - Co-COO*

No, we don't. We build our plans to gain share. So this is what's reflected in our core guide is to gain share in all of our core business as we have consistently. Again, I think the customer texture is what we're reflecting in the guide in Q1, which is that as we enter the year, it's a challenging demand drop -- or demand backdrop, excuse me. It weakened as the quarter progressed.

As we look forward for the rest of the year, as Tom said, we do expect a return to sequential growth. It's driven by really a couple of factors. One is just a belief that when you compare this cycle to prior macro cycles in our industry, that 4 to 6 quarters of demand decline that Tom referenced as being the historic level, we're deep into that now.

And then customers, what I would say is that just the cycle feels different right now. There's less outright company financial distress. There's fewer outright cancellations of projects. We're seeing some evidence of budget stabilizing and even increasing given inflation. So look, in infrastructure, customers are continuing to plan projects, but they're also behaving cautious right now, and that's what's sort of reflected in our commentary.

Operator

We'll now move to Simon Leopold with Raymond James.

Simon Matthew Leopold - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I guess what I want to try to follow up on is, in particular, the relationship between storage and servers. In that last earnings call, you did sound cautious on servers but were more optimistic on your storage business, and now we're seeing you more cautious on storage. And I guess I'm a little bit surprised, I would think that the 2 should be correlated and be driven by many of the same trends. So I'm trying to understand better, what changed in the last 90 days or so to change that view on storage?

Anthony Charles Whitten - *Dell Technologies Inc. - Co-COO*

Yes. Thanks for the question. Look, we're just seeing underlying evidence of moderating growth as we came through the quarter. So look, as we said in the prepared remarks, we had a good quarter. And specifically, we saw strength in our very large customers. But that large strength was offsetting declines that we saw in medium and small business. So our medium and small business performance in storage did moderate quarter-on-quarter. And that's typically a leading indicator for us for a slowdown in the business.

And texturally, I would tell you the caution that we saw in the server market is starting to appear in the storage market as well. Cycle times on deals has stretched, the number of opportunities we see has declined, and we see customers resizing budgets, increasing the number of approvals, all of the things that we saw in the server market.

So as you referenced, we've long cautioned that the storage market is not immune to the broader trends in IT, but it often lags the server business. It also shows less amplitude than servers, but it's ultimately not immune. And so that's the caution you hear us, reflecting that's what we saw in Q4. We think we're seeing the early signs of a little bit of slowing in the storage market.

Operator

We'll take our next question from Sidney Ho with Deutsche Bank.

Shek Ming Ho - *Deutsche Bank AG, Research Division - Director & Senior Analyst*

I also want to ask about the full year guidance. Obviously, things seems to have deteriorated throughout the quarter and the correction, like you said, could be 4 to 6 quarters. But I'm curious, are you seeing any of your businesses reaching a trough sooner than others because of your customers so aggressively cutting back on inventory? I'm thinking about server, storage and PC, maybe within PC, consumer versus commercial. Which one will help you come back to resume growth later in the year?

Thomas W. Sweet - *Dell Technologies Inc. - Executive VP & CFO*

Yes. Sidney, look, I think if you look at the pattern, we saw the softness -- if you go all the way back early last year, we saw the softness first manifest itself in the PC space, right? And then the server space followed as we got through Q2, on to Q3, Q4. So logically, one would think that PCs come back -- as we think about a pattern that and how we plan the business, we would expect to see some level of PC recovery as a leading indicator. And then I think servers would follow.

I will highlight Chuck's comment on storage, which is, look, it's not immune to some of the softness, but the amplitude of the variation there is going to be, we think, less just given the data creation activity that's out there in the market and the underlying trends. So I think our perspective is how past patterns have been, I would expect PCs first then servers and then storage to be sort of relatively stable but a little bit of pressure on that.

Robert L. Williams - *Dell Technologies Inc. - SVP of IR*

Okay. Great. Thanks for the question, Sidney. Operator, let's take 2 more questions. Then I wanted to let everyone know that we're going to turn the call over to Michael for a short close.

Operator

We'll take our next question from Krish Sankar with TD Cowen.

Krish Sankar - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Congrats on the good results. I just wanted to check, Chuck, on pricing and cost, how to think about the commodity and logistical cost environment in both CSG and ISG, specifically how to think about it over the next few quarters relative to the past 2. Are the biggest rate of cost declines behind us?

Jeffrey W. Clarke - *Dell Technologies Inc. - Co-COO & Vice Chairman*

This is Jeff. I'll do commodities and then I'll hand it over to Chuck to talk about pricing. But if you think about the environment we're in today and you look at the landscape of inventory, what's happening with the falling demand, we were deflationary in Q4, we expect component cost to be deflationary in Q1 and Q2, most notably driven by DRAM, NAND and LCDs across our businesses.

We also think when you look at freight costs, which we've talked a lot over the past the -- seems forever, but 2 years plus about the rising logistics costs, they have tilted the other way as well. We're paying fewer dollars and supplier premiums, fewer parts are being expedited. Our freight costs are down on those parts. We're able now to use our ocean network more vastly than our air network. We've seen ocean costs come down to near pre-COVID levels, and we've seen air costs come down, not quite to pre-COVID levels, but they have tilted going the other way. So our input costs for the first half of the year will be down.

Anthony Charles Whitten - *Dell Technologies Inc. - Co-COO*

And on pricing, look, we've certainly seen increased pricing pressure. It was most acute in the consumer business where we saw high levels of discounting and front- and back-end rebates being used to move channel inventory. We saw pressure in the commercial PC business as well. It was most acute again in large bids and in our channel stock and sell business where there is still elevated levels of industry inventory. And pricing aggression stepped up in servers as well, again, particularly the largest bids and largest customers.

I'd say -- given what Jeff just said, ultimately, we recognize that in a weak demand environment and a deflationary commodity environment, there's going to be downward pricing pressure. We've obviously factored that into our financial and operating plans and ultimately, the guidance we gave you today. I'd just add that we try to remain very disciplined in our pricing. There's frankly not a lot of elasticity right now in the market, particularly in the commercial PC and server business, so we're being very disciplined given that backdrop.

Operator

We'll now take our final question from Kyle McNealy with Jefferies.

Kyle P. McNealy - *Jefferies LLC, Research Division - Equity Analyst*

You mentioned that you'll see sequential growth through the year, which indicates you may be getting past the peak pressure of slowing demand and elevated channel inventories in PCs or you expect to get past that in Q1 at least. Is there anything you can say about what gives you that confidence that we could be getting past peak pressure, whether it's channel inventories coming down at the margin or year-over-year trends getting less negative in recent weeks?

And following on to that, when do you expect to start seeing some refreshes of early pandemic PC buys coming into the model? Can we see some of that later this year? Or is that -- that's fiscal '25 and beyond event?

Anthony Charles Whitten - *Dell Technologies Inc. - Co-COO*

Well, look, again, as we've tried to highlight, it's hard to pin the exact moment of the rebound. We are -- again, if you compare it to the historic cycles, 4 to 6 quarters of demand decline, and we're deep into that in the PC business.

I think what we would say is in commercial PCs, customers continue to reinforce the criticality of that device to us. As you said, there were 62 million core commercial notebooks shipped in the first 9 months of 2020. A refresh cycle is coming. When exactly that starts is what we're trying to think our way through. But the logic of prior cycles and what we're hearing from customers says that we should expect sort of sequential growth to return later this year.

Thomas W. Sweet - *Dell Technologies Inc. - Executive VP & CFO*

Well, maybe a little bit of texture there as Chuck talked about the range. Consumer PCs in the industry went negative in Q1 of last year, and commercial PCs went negative in Q2 of last year. So we are in quarter 4 and quarter 5, I should say, quarter 5 and quarter 4, respectively, consumer and commercial, and we've talked about ranges of 4 to 6.

Robert L. Williams - *Dell Technologies Inc. - SVP of IR*

Thanks, everyone. Let's turn it over to Michael for a close.

Michael Saul Dell - *Dell Technologies Inc. - Chairman & CEO*

Thanks, Rob. As you are all aware now, Tom has decided that it's time for him to retire from Dell. He will be leaving us at the end of Q2 after an incredible 26 years with the company and as our longest-serving CFO in company history. Since joining Dell in 1997, Tom has overseen every aspect of finance, guiding us through tremendous growth and through some extraordinary milestones, from the merger with EMC, to returning to the public markets, to spinning off Dell's stake in VMware. Tom, thank you for everything, and most of all, thank you for your friendship.

With Tom's retirement, I'd like to welcome Yvonne McGill, currently, our Corporate Controller, as our new CFO effective day 1 of Q3 FY '24. Many of you already know Yvonne. She also joined Dell in 1997. Among other roles, Yvonne has been ISG CFO, Chief Accounting Officer and led our finance functions for our APJ and China business. And as our Corporate Controller, she has been responsible for a number of functions, including ISG, tax, treasury, accounting and Investor Relations since 2020. She is a proven finance leader, and we are all thrilled to have her as our next CFO.

Tom, Yvonne and the team will work closely to ensure a smooth transition. And I know you will all join me in congratulating them both.

To close the call, let me reiterate what you've heard from Tom, Jeff and Chuck. We have delivered strong performance over the last few years, and we did so again in FY '23. We delivered for our customers, drove share gains, generated strong profitability, accelerated our innovation agenda and executed against our capital return commitments.

While the near-term demand environment is challenging, we expect it to improve as we move through the fiscal year. The quantity and value of data continues to explode, and the long-term trends are in our favor. Thank you for letting me join you today, and we look forward to seeing you all soon.

Robert L. Williams - *Dell Technologies Inc. - SVP of IR*

Thanks. I'm just going to close off to thank everyone for joining us today. We've got a pretty active schedule over the course of the next 6 weeks with management and the investment community. And that begins with Morgan Stanley next week in San Francisco with both Chuck Whitten and Sam Burd. So we look forward to seeing everyone out there. Thanks a lot.

Operator

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