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Brian Alexander:

All right. Good morning, everybody. I'm Brian Alexander. I'm the Director of Research at Raymond James, recovering tech analyst. Simon Leopold, who covers Dell Technologies, is offsite. And I have the pleasure of pinch hitting this morning, fireside chat format. Very pleased to have Yvonne McGill here, Corporate Controller from Dell, been with the company for almost 25 years, and we're going to keep it pretty interactive. I do have to read a couple of disclaimers, which I'm thrilled to do. You can see them on the screen. I'll run through them quickly. Non-Gap Financial Measures: the discussion may refer to non-gap results, including non-gap revenue, non-gap operating income, non-gap cash flow from operations, and non-gap earnings per share on a diluted basis. For reconciliation to the most directly comparable gap measure, please consult the slides labeled supplemental non-gap measures in the performance review available on the Fiscal Q4 2022 Results page on investors.delltechnologies.com.

Brian Alexander:

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Yvonne McGill:

That was wonderful.

Brian Alexander:

Now the fun begins. Okay. So, Yvonne, I think you're new to conference circuit and maybe investors don't know a lot about you or your history, your time with the company, so maybe just a brief introduction and how long you've been with Dell and what you've done along the way.

Yvonne McGill:

Okay, great. Thanks, Brian, and thanks for hosting today and thanks for reading that. Really appreciate it. So I have been at Dell Technologies for almost 25 years now. For the past two years, I've been leading our accounting, tax, treasury, and IR functions, as well as our Infrastructure Solutions Group and our Apex-as-a-service business. I've had many other roles over the last 25 years, including Chief Accounting Officer, and I had the opportunity to have two international assignments, my favorite being CFO of our Asia business, and had the opportunity to live in Singapore. I am a member of our Global Diversity Council and I'm executive sponsor of two of our employee resource groups, Family Balance and Women in Action. And I did want to do a call out in celebration for International Women's Day today, so want to celebrate all the women in the world today.

Yvonne McGill:

And, finally, I'd say, for the last two and a half plus years, I've been a member of the Applied Materials Board. And as you can imagine, as a finance professional, I have the opportunity to be a member of the Audit Committee and the Corporate Governance and Nominating Committee, which includes ESG. So really a great last quarter of a century and looking forward to keeping working.

Brian Alexander:

Excellent to have you here. So thank you.

Yvonne McGill:

Thanks.

Brian Alexander:

I think a lot of people are familiar with what Dell does, but if you don't mind just providing more of an overview of Dell's business for those that are not as familiar. And I know you guys reported results recently.

Yvonne McGill:

Mm-hmm (affirmative).

Brian Alexander:

January quarter, I believe January fiscal year, if I remember correctly.

Yvonne McGill:

That's right.

Brian Alexander:

So maybe just give us some highlights from the most recent results.

Yvonne McGill:

Sure. Well, we did have a record FY22 and we did some really interesting transactions like finishing up the VMware spin. But before I get to that, I did want to, for those that aren't as familiar with Dell Technologies, really give an overview of our strategy and our vision. So we believe we are uniquely positioned in this multi-cloud era with durable, competitive advantages. We have market leading positions across our portfolio and we have lots of financial flexibility to drive sustained profitable growth. We have leadership positions in large, stable, and expanding markets with strong fundamentals in our business. ISG and CSG are core businesses. They participate in a large market with about $670 billion of TAM with ample room to grow. We have a track record of gaining share across the portfolio, and we're pursuing a differentiated strategy to consolidate and modernize our core businesses.

Yvonne McGill:

ISG and CSG, our core, really give us a durable, competitive advantage and lots of strong cashflow generation, which is enabling us to enter into new growth opportunities. We believe that the new growth areas are really exposing us to around $650 billion of additional market opportunity, growing about 8% KAGR through 2024. We believe we have a unique right to win in these areas, areas like telco or edge. We have a differentiated strategy to win the consolidation and modernization of the core plus these new businesses I talked about where we have the right to win. We have a track record of growth, profitability, and shareholder value creation. FY22, I'd start by saying, wow, what a year, a record year. We delivered record revenue of $101 billion, record operating income of $7.8 billion, record EPS of $6.22 cents, and cashflow from ops of $7.1 billion.

Yvonne McGill:

We delivered significant shareholder value in many different ways. We completed the VMware spin, which I mentioned earlier. We simplified our capital structure. We deleveraged our balance sheet. We became investment grade, achieved investment grade ratings with all three rating agencies, and we announced a $5 billion share buyback program as well as recently announced a $1 billion dividend for the year. As we finished the year, we saw tremendous demand growth across the portfolio. CSG, records across the board, $17.3 billion, up 26% year over year, record operating income at 1.2 billion, and record shipments of 17.2 million PCs, which is pretty darn amazing, where we had gained share 32 of the last 36 quarters. ISG's overall demand was at 17%. Servers and networking delivered 7% revenue growth and storage demand grew for the third quarter in the high single digits and delivered the best performance since the EMC acquisition. So we're pretty pleased with that.

Yvonne McGill:

Looking ahead, we remain committed to our longterm financial framework, which we outlined in our Security Analysts Meeting in September. It's 3% to 4% revenue growth, plus 6% diluted EPS growth, net income to adjusted free cashflow flow of 100% or better. 40% to 60% of free cash flow return to shareholders. So pretty robust. We're very optimistic about the future, the strength in the core with leading market positions and that durable, competitive advantage I talked about, as well as those new and adjacent and markets where we believe we have a unique right to win. Our strategy and our financial flexibility will drive longterm value creation.

Brian Alexander:

Well, a very impressive year and appreciate all the details.

Yvonne McGill:

Absolutely.

Brian Alexander:

So, on the supply chain, big topic of conversation.

Yvonne McGill:

Absolutely.

Brian Alexander:

Dell's one of the biggest buyer of components in the world, so you guys have a pretty unique view of the supply chain environment and the constraints. So if there's any way you could quantify how the constraints have affected your business in terms of revenue, earnings, cash flow, and talk about backlog as well.

Yvonne McGill:

Sure. Well, first, let me start by saying how proud I am of our supply chain organization and capabilities. It is one of our durable, competitive advantages that I spoke of. We have a multi-decade operational heritage with longtime direct relationships with our suppliers, which certainly we've leveraged over the past few years. We design our products for flexibility with less complexity, and that provides us a more modular design with more match sets so we can ship more product based upon what supply we have. Our demand, also, we get signals from our Direct Sales Team, which allows us to do scenario planning and shape demand. Our global supply chain shortages of semiconductors and global logistics challenges, those aren't unique to Dell. We're hearing about those everywhere, but we are continuing to see them. We're still experiencing shortages in areas like integrated circuits. In addition, one of the interesting things we saw in Q4 from an inflationary environment was significantly higher freight cost and expedite cost.

Yvonne McGill:

Let me give you an example. Last year, we would be able to charter a 747 from Asia to the United States and it would cost us somewhere around $400,000. This year, to do the same thing, to expedite or to charter this plane, it was running around $2.5 million. So pretty significant change year over year. We are taking pricing actions as quickly as we can to address this cost inflation, but certainly with the high backlog we have we are not able to capture all of those costs. Customers have been generally receptive to the longer lead times and the increased costs. We're not seeing any increases in cancellations due to elevated lead times, but we are seeing a lag between realizing those costs, like I talked about we are experiencing in the fourth quarter with freight, and our ability to offset those due to those higher backlog positions.

Yvonne McGill:

Backlog for us as we exited the fourth quarter was at record highs both in ISG in total, but both for server and for storage. PCs have returned more to, I'd say, the higher end of normal from a backlog standpoint. We do expect semiconductor constraints throughout the rest of this fiscal year, fiscal '23, and elevated backlog through at least the first half of the year. We're seeing modest deflation in component costs in Q1, but freight costs will still be elevated. But we'll continue to monitor it and make adjustments as necessary.

Brian Alexander:

And fiscal '23 being calendar '22?

Yvonne McGill:

Calendar '22 plus a month with January, yeah.

Brian Alexander:

Okay. We're going to dive into a couple of the key businesses of Dell starting with the PC business, which is the legacy of Dell. You're one of the biggest players in the world in terms of market share. The PC market's been strong for several years, and I know everybody keeps calling it the end of the cycle and the death of the PC. I think we were up 10% units in last calendar year. Q4 was down year over year. So maybe just provide some perspective on the overall PC market, the cycle, and how sustainable you think this strong demand can be.

Yvonne McGill:

Sure. Well, you talked about the trends, we see that the baseline's been reset to 350 million units in calendar '21, up from 260 million prior. There's been unprecedented growth in calendar '20 and '21 with usage patterns changing, hybrid workers, hybrid learners, and this do anything from anywhere environment where the PC is that essential device for productivity. We don't see that going away. We also see some really interesting opportunities from a refresh standpoint. There are 550 million PCs that are greater than three years old and they really can't deliver that modern experience that everyone's expecting today. And I'd add to that, that with more people using notebooks, the refresh cycles have increased. So a notebook definitely doesn't last as long as a desktop, but I also point out that not all units are created equal.

Yvonne McGill:

We are focused on that high end part of the market, the high end segments, whether it's commercial PCs, small and medium business, and premier consumer and gaming. The segments historically are more stable and they have higher ASPs as well as higher profitability. Dell's also had a great attach motion which captures extra value from our services business and our software and peripherals business like displays. As I mentioned earlier, we have a track record of share gain, and we'll continue to consolidate and modernize by focusing on our key growth drivers, that modern PC experience, the Win 11 refresh that's coming. Consolidation amongst the top three providers and our consumer direct as well as our direct attach with services in S&P. Tougher compares that we're going to face in our fiscal '23. I mean, we know we won't grow 27% every year. I guess we can aspire to, but it probably won't grow 27% every year. But I like the trends we're seeing and I'd expect sustained growth over the long term.

Brian Alexander:

Great. The server business is the next largest business for Dell. Obviously, a market share leader there as well, so maybe just talk at a high level, what is your strategy in the server market? How do you service the hyper scale providers and how do you differentiate in the server market?

Yvonne McGill:

Sure. Well, it has been great to see a rebound in the data center demand as IT spending recovers. As you mentioned, we hold number one revenue share in mainstream servers, not hyper scale, and X86 servers with mainstream share up roughly 560 BPS over the last five years. So nice continued progress there. We saw demand momentum growth throughout the year, which has been really great to see. Data's being created everywhere and at an exponential rate. With an expansion of multi-cloud, edge, 5G, all of those are helping to create more data, and more data means you need more servers. We're well positioned with distinct advantages. I mentioned some of them already, but our go-to-market, our supply chain scale, our portfolio innovation, as well as our Dell Financial Services business. Our growth drivers we see upcoming are our new 15G servers that have adaptive compute to handle any workload, those cross sell opportunities within our buyer base with our Power Up Program, and high value servers with intensifying workload demand for AI and ML. We're focused on managing the business for the longterm.

Brian Alexander:

Excellent. On the storage business, obviously, the EMC acquisition really catapulted your presence in the storage market. I think you mentioned earlier three straight quarters of growth.

Yvonne McGill:

That's right.

Brian Alexander:

Talk about that business a little bit more, the competitive dynamics, and where you see the storage business going forward.

Yvonne McGill:

Sure. So our storage portfolio is the broadest in the industry and we're number one in all categories. And we're not just number one, we're bigger than number two and number three combined. We are aggressively innovating with our Power Portfolio. So that's our Power Store, our Power Scale, Power Flex, et cetera. And we're delivering regular and significant releases on each of those products. FY22 was an inflection point for storage. We saw orders growth the fastest since the EMC acquisition and we saw that growth in all geographies. Our mid-range orders were up double digits and our mid-range Power Store offer remains the fastest ramping in the storage history for Dell EMC. And I'd also say Power Store has been bringing a lot new Dell storage customers, so new to Dell storage customers up 26%, and then repeat buyers, so repeat Power Store customers have been increasing. We saw that at 29%.

Yvonne McGill:

Our focus is on orders growth so we want to make sure we continue to grow orders in our modern power architecture as well as the mid-range market. We expect demand growth for FY23 and then we expect the P&L to increase over the course of the year. And so, given our higher software content, our services content, it does take a bit of time for that demand growth to be reflected within the P&L. But I'm optimistic that we will continue to see data proliferation, which requires more storage.

Brian Alexander:

Absolutely. A big event was the spin of the 80% ownership of VMware. Just talk about how that affects the business, how that affects the relationship with VMware and, in particular, where you partner very tightly, which is around hyper-convergence.

Yvonne McGill:

Sure. Well, we continue to have a first and best approach with VMware with joint collaboration areas like you mentioned on hyper converge with our VX Rail Solution amongst others, and we're working together in new areas of joint innovation, like edge, telco, 5G, and composable infrastructure. We have a commitment to drive VMware revenue through the Dell sales channel, which represented about 38% of VMware's revenue in Q3, and helps VMware to preserve the relationship they have with Dell Financial Services. Our commercial agreement formalizes our joint commitment to product innovation and that go-to-market alignment. However, this is a first and best approach, not a first and only approach, and we'll work with others where we need to. Our customers will have choice and access to a variety of solutions to meet their needs.

Brian Alexander:

On capital allocation and returning cash to shareholders, you talked about debt pay down last year, you talked about 40% to 60% of cash flow being returned to shareholders, which is pretty aggressive.

Yvonne McGill:

Mm-hmm (affirmative).

Brian Alexander:

That's more than we see most companies. So clearly focused on returning cash to shareholders. Maybe just talk longer term what the framework might look like and how sustainable that framework is.

Yvonne McGill:

Sure. Well, we've always had strong cash flow generation, which I think has been overlooked the past few years as we've been using 90% plus of our free cash flow on debt pay down. We are going to return 40% to 60% adjusted free cash flow to shareholders, as you mentioned, over the longterm, and that includes the dividend of $1 billion this year as well as our share repurchase program, which will primarily be following a programmatic approach as we manage dilution and opportunistically return capital to shareholders. With the remainder of our free cash flow, you might say, "What are you going to do?" Well, you'll see some additional debt pay down in the future as we work towards that 1.5X core leverage ratio, and you'll see organic investment in both our core businesses as well as those new growth opportunities that I've been talking about. And you might see some targeted M&A that enhances our IP. That's certainly aligned with our strategy.

Brian Alexander:

And then one area of the business we didn't talk about, just quickly, on edge and telco, what are the growth opportunities specifically in edge and telco and how are you guys positioned to address customer needs?

Yvonne McGill:

Sure, well, as I mentioned before, our leadership position in our core businesses and durable, competitive advantages we believe facilitate growth in these spaces like edge and telecom. Edge is a large market, about $110 billion TAM with a 17% KAGR from calendar '20 to '24. Data's everywhere and for many organizations their compute storage and networking capabilities are centralized in a decentralized world that we're living in now with an increasing reliance on hybrid and multi-cloud strategies to manage applications and workloads. The edge is now an additional cloud locality, what we've been calling the third premises. Organizations need to accelerate their IT strategy to bring compute, cloud services, and ultimately data management to the edge of the context of multi-cloud strategy. Edge is highly vertical. Solutions and applications at the edge must support specific needs. It might be manufacturing, it might be retail, it might be price services, et cetera.

Yvonne McGill:

Dell has the broadest edge portfolio available. A recent Dell Technologies survey found that 69% of the Fortune 100 companies already use Dell in some capacity for their edge infrastructure. We're bringing cloud services and compute to the edge. We can provide a consistent approach to infrastructure, data applications, and security across the entire environment, one that is currently very fragmented. We also see telecom as a great growth opportunity with the large adjacent addressable market. That's about $114 billion TAM growing at a 2% four year KAGR. The industry is looking for more open, low cost network architecture, and a partner that will drive the system integration and services. Network operators need to cloudify their network architectures for 5G and widespread connectivity and we are uniquely positioned to modernize IT for the telecom in ways we've modernized IT for their enterprise.

Yvonne McGill:

Our telecom systems business combines industry expertise, telecom solutions, and services to help CSPs transform their operations, modernize their networks, and enhance their services portfolio. We're uniquely positioned with our global supply chain and services reach. We can procure, we can deploy, and provide services at scale. We have existing relationships with telecom customers supporting their PCs and data center buys, and now we're focused on that network footprint. We are building software and partner ecosystem to provide customer solutions and, Dell, we continue to lead in software defined virtualization of the open radio access network. Clearly, a disruption of traditional and proprietary telecom equipment is well underway and, as a result, this opportunity is a great one for Dell Technologies.

Brian Alexander:

Excellent. So we'll close with one final question. And as I mentioned at the beginning, you've been at Dell for almost 25 years.

Yvonne McGill:

Mm-hmm (affirmative).

Brian Alexander:

What would you tell investors really excites you that we don't already know about? What else might be underappreciated about the Dell story? It's been a fascinating story to watch over 30 plus years and I just wanted to give you the opportunity to talk about what else excites you.

Yvonne McGill:

Well, thanks, Brian. I am really excited about Dell and I'm really excited to be a part of this journey. Dell's continued to transform itself and reinvent itself over the years. We operate in a very large market with plenty of head room to grow both in our core businesses as well as in new opportunities like edge in telco. We've been unlocking shareholder value by simplifying our corporate and capital structures. Looking forward, we expect 3% to 4% revenue growth with EPS growing at 6% or better, and now that we're investment grade, we'll execute a more balanced capital allocation strategy, including capital return to shareholders. And I believe there's valuation upside to where we are today given our current PE ratio below 8X. I believe, we believe our future's really bright and I'm excited about growing our business and continuing to deliver for our customers and for all of our investors.

Brian Alexander:

Well, it's been a great story. And thank you, Yvonne, for being here today and thank you to the Dell team. We're going to leave it there, and thanks again.

Yvonne McGill:

Thanks, Brian, for hosting us.