DELL INCORPORATED

Moderator: Robert Williams
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Robert Williams: Thanks Regina.

Thanks Regina. Good morning and thanks for joining us. With me today is our CFO, Tom Sweet, our vice-chairman, Products and Operations, Jeff Clarke, and our Treasurer, Tyler Johnson.

We've posted our fourth quarter press release and webdeck on our website. I encourage you to review these documents for additional perspective. Full-year fiscal 2018 financial results will be filed on form 10-K on Thursday, March 29th.

I'd like to highlight a few items related to this quarter's results.

Beginning in Q4, we now have fully comparable year-over-year quarterly results. So unless otherwise specified, all growth percentages refer to year-over-year change. Please note that Q4 of fiscal 2017 was a fourteen-week quarter as compared to this year's thirteen-week quarter in Q4.

Also note that all financial results reported today are based on our historical revenue standard ASC 605 and do not reflect the impact of the adoption of ASC 606. We intend to hold a separate call for investors in late April to walk through the impact of ASC 606 adoption, and provide restated financial information.

During this call, we will reference non-GAAP financial measures, including non-GAAP revenue, gross margin, operating expenses, operating income, net income, EBITDA and adjusted EBITDA on a continuing operations basis. A reconciliation of these measures to its most directly comparable GAAP measure can be found in the supplemental material in our webdeck and the tables accompanying our press release.

Our Q4 non-GAAP operating income excludes approximately $2.4 billion of adjustments, and our full-year non-GAAP operating income excludes approximately $10.2 billion of adjustments. The majority of these are non-cash and relate to purchase accounting and amortization of intangible assets.

There will continue to be significant bridging items between our GAAP and our non-GAAP results for the next few years, although the impact will decline in each subsequent quarter.

Please refer to slide 3 in the webdeck for additional detail on the non-cash adjustments and the supplemental slides beginning on slide 21 for more details on our total non-GAAP adjustments.

I'd like to remind you that all statements made during this call that relate to future results and events 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 the cautionary statement section in our webdeck. We assume no obligation to update our forward-looking statements.

Finally, before I turn it over to Tom, I want to address the amended 13D we filed on February the 2nd disclosing that the Dell Technologies board of directors is evaluating a number of potential business opportunities. This is part of our ongoing multiyear strategic planning, and we are doing this from a position of strength. We are leaders in 21 of the top market share categories, and we have leadership in 13 Gartner Magic Quadrant reports. As Tom will discuss in his remarks, we are in solid financial condition, with strong cash flow generation, and we have made significant progress on paying down debt. With that said, we will not address the filing any further or take questions related to this topic.

Now I'll turn it over to Tom.

Tom Sweet: Thanks, Rob.

I was pleased with our results for fiscal 2018 as we have made significant progress in a number of areas.

We drove strong top-line velocity, delivering revenue of $80 billion for the year, and we saw revenue and profit momentum improve as we moved through the year, all while navigating through one of the toughest component cost environments we've seen.

We delivered strong operating cash flow of $6.8 billion and adjusted EBITDA of $8.2 billion, allowing us to make good progress on de-levering, paying down $10 billion of gross debt since the closing of the EMC transaction.

The teams did a good job on integration, and we're seeing strong coordination across the entire Dell Technologies family.

This collaboration is paying off with better-than-expected revenue synergies, and strong customer acceptance of our broad solutions portfolio.

We increased our global coverage by investing significantly in our sales team and channel program, and we've made changes in the Infrastructure Solutions Group that Jeff will discuss in more detail.

Now, let me turn to results for the fourth quarter.

GAAP revenue for the quarter was $21.9 billion, with a GAAP operating loss of approximately $320 million.

Non-GAAP revenue was up 8 percent to $22.2 billion, with strong top-line velocity for client, servers and VMware, along with improving demand for storage.

Gross margin was $7 billion, up 6 percent, and was 31.6 percent of revenue, which was down 40 basis points, driven by mix dynamics within ISG, given the strength we've seen in servers.

Opex was $4.9 billion, up 3 percent, and was 22.1 percent of revenue, which was down 100 basis points as we continue to drive opex discipline across the business, even as we selectively invest in growth opportunities.

Operating income was up 15 percent to $2.1 billion, or 9.5 percent of revenue, up 50 basis points.

Adjusted EBITDA for the quarter was up 13 percent to $2.5 billion or 11.1 percent of revenue. Please see slide 22 in the webdeck for more details on our EBITDA adjustments.

Deferred revenue was $22.2 billion, up $3.6 billion year-over-year, and up $2.2 billion sequentially, driven by growth in maintenance, flexible consumption models, and extended warranty.

Specific to flexible consumption models, we continue to respond to customers' requests for choice in how they procure and utilize our solutions. Though the revenue and margin is not immediately recognized, these arrangements will provide a more predictable long-term recurring revenue and profit stream.

Before I jump into the segment results, let me make a couple of additional comments.

First, as we've seen in prior years, Q1 is typically down sequentially, given the seasonal patterns of the business. We also see a use of cash in the first quarter, given historical seasonal patterns. Looking at historical trends, we then build momentum through the remainder of the year.

Second, I also want to touch on tax reform.

As you know, a comprehensive tax reform bill was passed in December. We view tax reform as a positive for the overall U.S. economy and IT spending.

Due to the complex nature of the tax reform bill, it requires extensive tax analysis, and the government continues to issue guidance and clarifications. Today, I will provide our estimates of the impact that are based on our current analysis of the new tax rules.

During the fourth quarter, we recorded a benefit of $316 million for the net impact of tax reform, driven by a benefit of $1.3 billion related to the re-measurement of deferred tax assets and liabilities, offset in part by current and future income tax expenses of approximately $1 billion related to the transition tax. The cash tax impact of the repatriation "toll charge" will be substantially offset by other tax attributes.

Going forward, we continue to evaluate the impact of tax reform on our effective tax rate. Given what we know today, our expectation is that tax reform will not materially change our effective tax rate, as the positive impacts should roughly offset the negative impacts when fully interpreted and implemented.

Now, let me give you a summary view of the financial performance of our business segments for the fourth quarter.

Revenue for our Infrastructure Solutions Group was $8.8 billion, up 5 percent. The revenue increase was primarily driven by servers and networking, which were up 27 percent to $4.6 billion.

Servers delivered its third consecutive quarter of record revenue, with double-digit growth from both PowerEdge and Cloud servers, as we continue to see strong demand for PowerEdge servers, along with ongoing expansion of our server average selling prices.

Storage revenue was $4.2 billion and was down 11 percent. But, for the first time since the transaction closed, storage demand grew year-over-year.

One of the drivers behind the variance between demand and reported results is due to deferred revenue, primarily related to maintenance and our flexible consumption models.

We are encouraged that we exited the quarter with better storage velocity on a demand basis, and we expect a gradual recovery over the coming quarters as the actions and investments we put in place this year gain traction.

Operating income for ISG was $748 million or 8.5 percent of revenue, which is a 350-basis point decline over the prior year, primarily due to a higher mix of servers and, to a lesser extent, higher component costs. We are focused on improving the overall profitability of the business, balancing velocity and profitability in servers, while growing storage and data protection.

Revenue for our Client Solutions Group was $10.6 billion, up 8 percent, driven by higher average selling prices across both Commercial and Consumer, and double-digit growth in Client Software & Peripherals. Commercial revenue grew 9 percent due to average selling price expansion for notebooks and workstations, as well as double-digit revenue growth in displays. Consumer revenue was up 6 percent, driven by growth in average selling prices for both notebooks and XPS products.

CSG Operating Income was up 70 percent to $581 million, which was 5.5 percent of revenue, as the team did a good job of offsetting component cost headwinds through repricing, and also focused on attaching higher-margin services and S&P.

VMware had another strong quarter. Revenue for the VMware segment was up 20 percent to $2.3 billion, and operating income was $834 million, or 35.8 percent of revenue.

Revenue from our Other Businesses, which includes Secureworks, RSA, Pivotal, and Boomi, was $492 million, which was up 3 percent.

Now, turning to the balance sheet and capital allocation.

We had strong cash flow generation in Q4 as cash from operations was $3.1 billion, predominantly due to improved overall profitability and the seasonal increase in maintenance and services contracts, which are paid upfront.

Our cash and investments balance was $20.3 billion, up approximately $2.3 billion versus the prior quarter.

On the debt side, since closing the transaction, we've paid down $10 billion of gross debt, excluding DFS debt, and remain fully committed to de-levering the balance sheet.

During Q4, we paid down approximately $300 million in debt, ending the quarter with $52.7 billion in total debt. Total debt is $200 million higher than the prior quarter, due to an increase of approximately $450 million in DFS debt.

Core debt ended the quarter at $39.9 billion, down from $48.8 billion at the time we closed the EMC transaction.

As a reminder, core debt excludes DFS-related debt, unrestricted subsidiary debt and the margin loan, and is aligned with how we present the capital structure to the rating agencies for leverage discussions.

For additional detail on what is included or excluded in our debt balances, please see slide 9 of the webdeck.

Demand for financial services is strong across the Dell Technologies family. In Q4, DFS originations were approximately $1.9 billion, up 23 percent. As of the end of fiscal 2018, financing receivables now stand at $7.6 billion, up 30 percent. As we've discussed on prior calls, the growth in financing receivables drives an increase in our DFS debt as we continue to fund the business.

Now, let me turn it over to Jeff to walk you through the operational highlights of CSG and ISG.

Jeff Clarke: Thanks, Tom.

We ended the year on a high note, with improved performance across the business in the fourth quarter. Client, servers, hyper-converged infrastructure, and our all-flash products continued the strong growth trajectory we've seen in prior quarters, and we saw improvement in the traditional storage demand as we exited the year.

Since we last spoke in December, we've already made changes that set us up for success moving forward.

We simplified the ISG organization, aligning leaders and product categories more effectively for improved speed and accountability.

We've already started to simplify our product offerings and how we go to market. For example, we will be aligning our software defined storage strategy to vSAN, offering VxRail and VxRack SDDC.

We started shipping the enhanced mid-range storage products we announced in November, and expanded the Future-Proof Storage Loyalty Program to all of our storage products shortly after it launched.

Lastly, we've increased collaboration across our Strategically Aligned Businesses to leverage our collective strengths and to build better solutions for things like cloud, software-defined storage, software-defined data center, infrastructure-as-a-service, and hyper-converged infrastructure.

A simpler organization with simpler portfolios and targeted solutions means faster decisions and faster innovation. It also promotes a faster go-to-market engine, benefiting both businesses and our customers.

Looking at the full fiscal year 2018 results for ISG and CSG, they were solid overall, with a few areas that we are addressing.

External feedback has been positive, with a survey conducted by IDC finding that 91 percent of customers say that Dell and EMC have delivered on our pre-merger promises. It's clear, the Dell Technologies' value proposition of leading the digital, IT, security and workforce transformation is resonating with customers, partners and industry analysts. We recognize that we have some areas that need focus, and we're working to improve as we move into FY19.

Let me touch on some of the highlights.

For the full-year, CSG delivered excellent results, reporting revenue of $39.5 billion, which was up 7 percent. Operating income of $2.2 billion was up 19 percent, and was 5.6 percent of revenue.

We had a record holiday season in consumer, and the investments we've made in client are paying off as premium notebooks, including workstations, Latitudes and XPS, all grew double digits in FY18, and we saw double-digit growth in demand for gaming and rugged notebooks.

We received a record-high 87 awards at CES this year, which was our fourth year in a row of setting a record.

In calendar Q4, we delivered our 20th straight quarter of year-over-year worldwide PC unit share gains.

That said, our growth premium has slowed the past two quarters, so we're focused on driving higher relative unit growth in a consolidating market, while maintaining profitability in FY19.

As Tom mentioned, client S&P saw good growth this year, driven by double-digit growth in Displays and also in Peripherals, which includes items like docking stations. Dell continues to be the number one display provider in the world, and gained 110 basis points of unit share on a year-over-year, based on calendar Q3, from DisplaySearch.

ISG performance was mixed this past year. Revenue for the fiscal year was $30.7 billion and above our expectations, while operating income was $2.2 billion or 7.1 percent of revenue, which was below our expectations.

Servers and networking revenue was $15.4 billion, up 20 percent. FY18 was a record year for servers for revenue and units. It was the second time we've shipped 2 million servers in a year. Q4 marked the third consecutive quarter of record revenue, and we continued to see strong unit growth for both PowerEdge and Cloud servers. We saw higher ASPs for servers as we continued to see more richly-configured servers, we ramped our 14th generation PowerEdge server, and we've effectively managed pricing to partially mitigate the ongoing memory cost inflation.

In Q3, we became the worldwide leader for x86 servers based on both units and revenue, and we finished the calendar year at the number one spot for both categories for total x86, according to IDC. This is the first time since we've entered the server market that we've been the undisputed market leader.

Moving to Storage, revenue was $15.3 billion for the full year. Our market-leading hyper-converged portfolio saw triple-digit demand growth, with strength in VxRail, while demand for our Isilon scale-out NAS and our all-flash arrays grew double-digits over the year. Our all-flash business exited the year at a demand rate of nearly $5 billion, and we remain the undisputed leader in all-flash arrays with nearly one-third of the worldwide revenue market share.

As we've discussed on previous calls, traditional storage and Data Protection were challenged, both on financial results and market share, and we are laser-focused on improving this business. We have made investments and have implemented action plans over the past few months to improve storage growth, particularly in midrange, and we expect the benefits of these actions to materialize through the next year.

Looking forward, we want to build on the momentum and velocity we've seen, while we continue to drive hard against operational improvements.

Our priorities for FY19 are to: Continue to deliver world-class quality and service; reduce complexity across the portfolio; accelerate storage and Data Protection velocity; maintain server velocity while improving profitability; ramp sales productivity, which will be a multi-quarter journey; and accelerate client unit velocity with market consolidation while maintaining profitability.

The technology and market trends play directly into our hands and we're positioned to win. We have the right strategy, the right team and an unmatched portfolio to lead our customers on this journey through their digital future.

With that, let me turn it back over to Tom.

Tom Sweet Thanks Jeff.

We made solid progress and leaned into some challenges in fiscal 18. Overall, we feel good about our performance against the four strategic goals we laid out at the April analyst meeting.

We made strides to drive client, server and services velocity, and grew at or above market in multiple areas of the business, and the team navigated through some tough component cost headwinds.

We generated strong cash flow and successfully delivered working capital efficiencies, allowing us to make great progress on de-levering the balance sheet.

We are well into the integration efforts but we still have more work to do related to product positioning and solutions, as well as systems and tools.

Finally, we brought the full capabilities of Dell Technologies to customers in a more comprehensive and seamless experience, and this is resonating with our customers.

As we move forward into fiscal 19, we want to continue to execute our strategy in order to fully embrace the opportunities we see. We believe the macro-environment, and the IT market are setting up to be stronger as global economic sentiment has improved and GDP expectations have grown; the U.S. tax reform changes have had a positive impact on expectations for capital expenditures, and customers are being driven towards digital transformation, which requires more compute from the edge to the core to the cloud, and requires more capacity, storage, data protection and security, all of which are good for our business.

We must improve a few areas of the business to strengthen our position and take advantage of these factors.

With that in mind, let me outline our four strategic areas of focus for fiscal 19.

The first two haven't changed that much from fiscal 18. We want to continue growing above the market and drive share gains, with particular focus on storage and client; and we have to continue to generate strong cash flows and de-lever the balance sheet.

The third goal is capturing the priorities that Jeff outlined during his remarks. We need to drive profitability in ISG as we balance server velocity and profitability, and accelerate storage and data protection velocity.

The last goal is to continue to delight customers by listening to and addressing their needs for their digital transformation journey through our full range of capabilities.

In closing, we believe we have the right strategy and given the market trends, we feel good about our position headed into fiscal 19 as we focus on executing the business model and serving our customers.

With that, I'll turn it back to Rob to begin Q&A.

Robert Williams: Thanks, Tom.

Let's get to Q&A.

We ask that each participant ask one question, with one follow-up if you have one.

Regina, can you please introduce the first question?

Operator: Our first question will come from the line of David Eller with Wells Fargo.

Please go ahead.

David Eller: Good morning and thank you for taking the call.

You know performance was very strong in the CSG Segment, and I was wondering if there were any one-time items in the operating income? In the past you've had vendor settlements and things like that that have helped.

Tom Sweet: Hey, David, it's Tom. No, there were not. It was just a pure performance-oriented quarter based upon the execution that the team did principally around pricing and the work that they did to ensure that with the component cost dynamics that we had that we were pricing properly and ensuring that we got value for our solutions. So in terms of one-offs, not really anything there in the quarter.

Jeff Clarke: David, I would add to what Tom said that good performance in our commercial PC, good performance in our premium notebooks, Rugged, XPS, the gaming side, and those all bring good margin profiles to our business. So we did execute quite well in Q4.

Tom Sweet: And your attach motion was better, Jeff, in terms of if you think about displays and some of the services attaches.

Jeff Clarke: I was going to say, our display business continues to do quite well, and then our accessories business, particularly around docks, was an opportunity for us with that notebook performance to drag along more revenue with our attach, attach, attach.

David Eller: Okay, that's very helpful. And then you laid out your focus areas for FY 2019 on Slide 18, that was very helpful. But could you take a step back and maybe just frame your market expectations for each segment for the coming year, so the competitive environment, where we are in the cycle for each?

Tom Sweet: Well, let me start, and then Jeff can probably give you some more insights. So as we think about the business for the coming year and the market segments, if you think about, you, for instance, IDC would say that the market in calendar '18 is roughly a -1-1/2, -1.7, although commercial client commercial will be up marginally. So pretty much sort of that status quo depending on what's been going on in the market of late.

On the server market, particularly in the mainstream servers, IDC says 2.1 percent growth for next year, which is slightly down from where it ended in the fourth quarter, or I guess it's flat with the fourth quarter.

In terms of where we are in terms of those cycles, and I'll get to storage in a second, we feel pretty good about the velocity in the server business right now. It's clearly a -- we believe that the industry dynamics and trends are coming our way around more compute-centric platforms, also feel really good about where we are with our PC offerings and our commercial client offerings. Jeff mentioned the thin and light, the gaming capabilities, the XPS products and the new Latitude lines. And so we feel like we're pretty well covered there. The market looks relatively stable. The macros look relatively stable. So we'll have to see how that progresses.

In the storage market, and maybe Jeff can add some insight there for us is forecasted to be about a flat market, although IDC way say there's growth in the midrange and continued softness on the high-end, although not as soft in the high-end as it was this year. So that's clearly an area of focus for us as we position and think our way through how do we drive storage velocity and data protection velocity.

Jeff Clarke: Well, Tom, I think you hit all the right points. We would look at PC growth to be in the low negative single digits, consumer more negative, commercial slightly positive, commercial notebooks being the shining spot of the PC business, which we have tremendous focus on.

I look at the X86 business to be and the X86 server business to be in the low single digits of positive growth. The storage market, as Tom said, is roughly flat, so our external storage marketplace is there. Within that I think there's clearly the midrange that Tom called out and also the all flash growth opportunity, which we are a market leader in that category. And in the hyperconverged category continues to grow in low double digits.

David Eller: Thank you for taking the question.

Operator: Our next question comes from the line of Thomas Egan with JP Morgan.

Please go ahead.

Thomas Egan: Good morning. Thanks for taking my question.

I'm not going to ask anything about your amended 13D. But what I would like to do is ask you a little bit about prioritization, how you think about prioritization, where you want your cashflows to go given your status quo.

You've got the bulk of the cash is at VMware today. The bulk of the cash from operations is being generated by VMware today. And you've got some debt coming due, and you've also got the tracking stock, which looks pretty attractive because it's selling at such a discount. And you've probably got some changes in how you have to pay taxes given some of the changes in the tax laws, the repatriation of some of that cash.

So could you just sort of give us a holistic view, Tom, of how you are prioritizing debt repay down, buying of Tracker, paying taxes, and where you think you're going to be able to get that cash from to do all of those things?

Tom Sweet: Well, hey, Tom, I'm happy to address that. And let me just start with this, a we think about our cashflow from operations, which was roughly about $6.8 billion this last year, 3.2 of that was VMware, so roughly 3.4 was the core Dell, Dell EMC. We do expect and we don't give guidance, but we do expect that that will continue to expand as we continue to execute on our storage strategy and as we continue to execute on some of the priorities that we laid out in the call.

As we think about our priorities, they really haven't changed, which is it's not just cashflow from operations that have helped us, we've also driven great efficiency off our balance sheet from the working capital initiatives that we've driven. And as we think about priorities it's going to continue to be primarily a de-levering priority. So I don't really think there's a big change in strategy from what we've been doing over the last 18 months or so.

I will tell you that as we analyze it today, the tax impact, the tax reform impact from a cash perspective is relatively minimal and very manageable. And so that at present time is not a significant driver causing us to change or rethink our strategy.

So we have about $8-1/2 billion of cash and investments that are core Dell, Dell EMC, if you exclude the VMware cash and investments. That's more than enough to help us manage our way through current maturities, continued de-levering, even as we think about how we drive future cashflows from operations.

So I really think my priorities are relatively unchanged. We're committed to de-levering the balance sheet. We're committed to getting back to sort of investment grade like metrics. We'll do that over the right period of time, even as we invest back into the business. And so that's sort of our current thinking.

And maybe I'll ask Tyler to comment on if he has any other insights or anything you would add to that, Tyler?

Tyler Johnson: I think you really said it all, Tom. The same thing we've been saying since really the beginning following the EMC transaction that we're going to de-lever. We've paid down $10 billion. Tom talked about the $8-1/2 that we have on the balance sheet or where we ended the balance sheet in Q4 which is excluding the VMware cash, which puts us in a very healthy position as we kind of go into next year and with the roughly $4-1/2 billion that we're planning on paying down. We've talked about that. We're going to use cash from the balance sheet. We might have to dip into our revolver a little bit. But that would be only for short-term to manage some gaps in timing.

And so it was a strong cashflow quarter for us. I feel really good where we ended up. And as it relates to tracker, we'll continue to be opportunistic around that as we have in the past but de-leveraging really continues to be in our focus.

Thomas Egan: Thank you, that's helpful.

And then for my follow-up, on storage, the turnaround in demand seems to me to be a pretty important point, because it's been sort of a thorn in your side since you've done the EMC deal, and I wondered if you could just give us -- you gave us a little bit of color about some parts of it, but if you're saying that demand is up year-over-year for the first time that strikes me as being pretty important.

Could you talk a little bit about maybe -- could you just give us a little color on that, what total demand was, how are you measuring demand, is it dollars and then what maybe the deferred revenue increase was, because obviously we can't see it in the GAAP revenue? Thanks.

Jeff Clarke: Look, Tom and I will probably ham and egg this one. Look, it is encouraging when you look at our orders demand in Q4, the exit velocity. I would use the word encouraging. We haven't set a trend yet. But we think the hard work that we put in place, the fact that we've added capacity that we've improved our product competitiveness that we've increased the speed in our decisions, the customer loyalty program that we put in place at the very end of last year is beginning to pay dividends. So we're encouraged.

You saw the Q4 market share data. We have work to do. It is, without question, something Tom and I have tremendous focus on in the organization to change the performance of our storage business. And again, we exit the fiscal year with a bit of encouragement.

We saw good performance in our HCI business. We saw good performance in our all-flash business. And that encourages us to where we think we, again, have expectations of a better year. We built our plan in FY '19 as a take share plan, as a growth plan. And we set the tone in the organization that we are expecting to grow in the external storage business and take share.

Tom.

Tom Sweet: I think that's right, Jeff. I mean the comment around the fact that we set our plan around a take share plan is consistent with how we think about generally our business in the other LOBs, for instance, right. I mean in some of these markets, which are consolidating markets, you have to take share. You have to grow. And Jeff has been very focused with his ISG team on how does he position both the product and the offer and the selling motion to be aligned to take share.

We also have to think about the fact that our selling models are changing a little bit, our types of consumption models are changing a little bit around things like flexible consumption. We're now offering customers more choice in how they contractually work with us. And a lot of them are wanting more flexibility and typically when you provide flexibility in some of these contractual arrangements that you end up deferring revenue.

And so we did see pretty strong growth in our deferred -- really strong growth in our deferred revenue and that was mostly storage related, as it relates to the ISG side of the business. And so that's why for the first time I think you saw us talk a little bit more around deferred revenue talking points, just because I'd like to sensitize you guys to the fact that the models are changing some, right now.

It's not going to happen overnight, and we'll see what the natural sort of framework looks like in terms of how big some of these offerings get, but between flexible consumption models, utility models, as a service-type models, there are some dynamics out there in the industry that -- the customer environment, I should say, that are changing. That doesn't get counted in share. But it does sort of count in some of the order demand data that Jeff is talking about.

So let me just finish with I'll echo Jeff. We are encouraged. We're not confused about what we have left to do. There's a lot of work left to do. We have work to do ensuring that this instance becomes a trend over time. And Jeff has done a lot of work, particularly in the mid-range offering. We've got more work to do there. That's a growth area for us that we need to attack and ensure that we're taking our fair share of that marketplace.

So that's the work we have in front of us. It connects back to your first question, which is we're very focused on storage. It's a strong margin profile for us. So it drives good cash. And we need to get it growing and going in the right direction.

Jeff Clarke: Tom, I'd had one thing. I think you'd agree with this and we talked about it in the last call, as we head into FY '19 we've really honed in the compensation plan for our sales force to focus on storage in FY '19. And I think that is a key difference between our FY '18 performance and what we will achieve in FY '19.

Tom Sweet: We clearly have put more dollars at risk as it relates to the storage bucket. So they need to sell storage to get to their plan.

Operator: Your next question comes from the line of Jeff Harlib with Barclays. Please go ahead.

Jeff Harlib: Hi, good morning. I just want to talk about margins as you look into the next fiscal year. Some of the puts and takes, I mean the $2 billion cost savings program I think you said that will be done fiscal 2Q. You're also reinvesting, which is somewhat of an offset, and then you have some mix challenges across the business with better servers. And then on computing you seem to be the last two quarters trending solidly above your prior margin targets, so maybe just an overall discussion on margin puts and takes and outlook.

Tom Sweet: Hey, Jeff, it's Tom. Let me start and then I'll let Jeff jump in here, as well.

So look, I mean we obviously don't give guidance around margins. So let me start with that. But as we think about the environment let me give you a couple of thoughts. First, as we've talked about, fiscal '18 was a pretty tough component cost environment. And I think I'm publicly on record as saying that the absolute swing from FY '17, which was a deflationary environment, to an inflationary environment in FY '18 was roughly about a $2-1/2 billion swing that we had to go adjust pricing for or somehow navigate our way through.

And what you saw, as you think about our fiscal '18 results from the first half to the second half, is you saw us in the first half dealing with a lot of that inflation, plus the go to market implementation. And then you saw the business accelerate as it went through the year to the point where we felt reasonably good, not around some of our exit velocity as we got through Q4.

So, component costs as we understand it right now will not be as big of a headwind as it was last year and perhaps it's even a slight tailwind. We'll have to see how we progress through the year. We think that's helpful from a pricing perspective, from a pricing management perspective. So that's a positive from a margin perspective.

It's competitive out there from a pricing perspective, so we're always going to be competitive and make sure that we've got the price point set properly.

From a mix dynamic, if we go execute our plan, if we go execute our plan, you would think that you would see some margin help there from the storage and data protection, because that's high margin product and solutions. And so that's a focus area for us, as well.

Servers is going to be an area that we said in our talk track that while we're extraordinarily happy with the velocity of servers, we've got a little bit of work to do around improving some of the gross margin dollar contribution there. And so that's a focus area for us.

So, look, if anything it's about how we go execute this year. And so I think margins have an opportunity to be better, but there's work to do to make sure that we go execute around that model.

So, Jeff, I don't know what you would add.

Jeff Clarke Maybe a couple of points, one on we'll start with ISG. We're going to try to maintain the profitability that you see, while increasing the unit velocity. While we did achieve 20 straight quarters of year-over-year share gain, our unit velocity slowed in the second half of the year and that's a priority of the organization to pick up the unit velocity while maintaining the same level of profitability. And we believe we can do that with our bias towards commercial and our attach motion where we can drag peripherals, services and financing with each purchase. We have a unique ability to do that.

So I'm encouraged there. I'm also encouraging where we're winning which is, as I mentioned earlier, in some of the premium price bands, the premium categories, Latitude commercial notebooks, precision workstations, XPS rugged notebooks and our gaming categories. Displays is a great business for us there and we continue to be the market leader and we are working to expand that position as we head into this fiscal year.

On servers I don't want to slow down. Our mix issue in ISG is not an issue that servers grew too fast. Our mix issue is we didn't grow storage enough. So we want to continue to grow servers and take advantage of the opportunity of access to new customers that we did not have before, that the benefit of the EMC acquisition has given us access to enterprise customers that we did not grow in and we want to continue to do that.

Jeff Harlib Great, thanks.

Jeff Clarke And then at the end of the day I have to drive storage growth. Storage growth will change the fundamental composition of the ISG profitability. In terse terms I guess, I need to sell a lot more 60 percent gross margin things than we are today and by doing so we'll lift the aggregate ISG portfolio. Does that make sense?

Jeff Harlib Yeah, great, that was very helpful. My follow-up would be, just on free cash flow, the core Dell free cash flow of about $2 billion was very strong in the quarter, well above what we were modeling. I'm just wondering are there any unusual, I know there's seasonal benefits, any unusual timing issues of some of these kind of permanent changes you've made in your processes. And then just to follow up on that the flexible consumption models, how do you see them, the shift to that, how do you see them impacting cash flow over the next year or two?

Tom Sweet

Hey, I'll start and then Tyler can probably answer it more intelligently than I can. So look, there really wasn't -- as we think about free cash flow, other than some of the standard working capital dynamics you get out of a stronger demand and shipment quarter, there really wasn't anything unusual in that, other than the one comment I would give you is we were pleased with the deferred revenue growth, right. And in many respects that deferred revenue growth derives from whether it's prepaid maintenance or some of the flexible consumption models, drives cash up front.

But it all comes down to when we drive velocity through the business model, whether that's through PCs, servers, and as we continue to build velocity and storage, we get the effects of a very effective and efficient use of working capital. So nothing unusual other than deferred revenue as it relates to flexible consumption models.

Look, we're going to -- it's a careful balance, right, because we like the flexible consumption models in the context of they are typically multi-year arrangements. They typically build a better and stronger and deeper relationship. They're generally quite profitable over time.

But they obviously have some short-term P&L dynamics as you work your way through that, even in some instances particularly with some of our licensing arrangements where we get the cash up front. Utility models are something different where we get the cash obviously on a subscription basis, per se, over time.

So they're going to continue to grow. In many respects we want them to grow. We just want to make sure that we have the right balance in terms of the mix of our business to properly manage both our cash, our P&L commitments and our relationship with our customers.

We also have some new and emerging businesses that are continuing to grow quite fast, like if you think about a Pivotal, a Boomi, an RSA, where their business models in many respects are subscription-based models. And so we'll continue to see some elements of deferred revenue growth coming from some of those new -- some of the new and emerging businesses.

Jeff Harlib Great, thank you.

Tom Sweet Would you add anything to that?

Tyler Johnson Yeah, I think you covered it. I guess the only thing that I would add and, Jeff, maybe just kind of reinforcing and agreeing with what you said, right, like depending on how you calculate your free cash flow, when you take into account that we have a $600 million impact from growth in our financing receivables, we paid out $900 million approximately of interest expense. It was a really strong Q4, so we're really happy about where we ended up.

Jeff Harlib Thank you.

Operator Your next question comes from the line of Karl Keirstead with Deutsche Bank. Please go ahead.

Karl Keirstead Thanks very much. So if this question pushes too close to your 13D filling I'll understand. But I wanted to ask you in general how you view the protection of DVMT shareholder rights? How important is it to Dell to treat this constituency fairly beyond any current business combination review, just in general? Thank you.

Tyler Johnson Hey, Karl, we're going to have to defer on that question. If you want to take another question not related to the 13D, we'd be happy to take it.

Karl Keirstead Got it. Okay. I will follow up with one financial question and that is we are in a rising interest rate environment and I don't think your financial results disclose necessarily interest expense. But maybe you could just offer a little bit of context around the portion of debt that's variable and if there's any color you can offer in terms of exposure to rising interest rates. Maybe there's a rule of thumb that might help us on the modeling front. Much appreciated.

Tyler Johnson Yeah, hey, this is Tyler. I mean we look at our capital structure really kind of from a broad perspective. So I actually do have a target around floating rate debt. I think floating rate debt over time actually outperforms fixed-rate debt. And our floating rate debt now is roughly about 27 percent, because if you go back and look at what we've been paying down since the close of a transaction it really has been floating rate.

I'd probably target somewhere between 25 percent to 40 percent floating, so we're actually at the lower end of that range, so we feel very comfortable about that position. And yes, even though LIBOR is higher and that piece of interest expense is higher, if you take into account the debt we've paid down, the re-pricings that we've gone through, we've more than compensated.

So our actual overall annualized interest expense is lower than where we closed the deal. And that will continue to be driven down. Once, again, we're looking forward to this year to paying down $4-1/2 to $5 billion and so we'll continue to take interest expense out of the balance sheet.

Karl Keirstead: Great, thank you so much.

Operator: Your next question comes from the line of Frank Jarman with Goldman Sachs.

Please go ahead.

Frank Jarman: Great. Thanks for taking my questions, guys.

I guess I just wanted to focus again on the revenue growth, and specifically the ASPs. I think you said they were higher, but can you give us any more granularity specifically maybe in kind of how to think about storage versus servers versus PCs? And really what the component is related to the higher component costs with regards to how you guys are passing that on versus what you're seeing sort of more broadly across the business as well?

Thank you.

Tom Sweet: Let me start and maybe Jeff can add some comments. Look, I mean, we did talk about the fact that some amount of the revenue growth was driven from ASP or TRU expansion. And principally that's a result, as you know, of particularly in PCs and servers we had higher input costs in terms of the component cost environment. So we generally try to price our way through that to ensure that we cover it off.

Also, while I won't give you exact percentages, I also want to echo what Jeff said around, as we think about our revenue velocity in PCs and servers in particular, while we're overall very pleased with it, we are careful as we think our way through how much was ASP driven versus how much was unit driven.

And so for instance in servers where revenue growth was roughly about 22 percent, if you think about how we should think of the unit shipments, over half of that revenue growth was driven by TRU expansion versus units, and that's what we want to think our way through in terms of how do we balance that.

And PC is much the same. If you think about our PC business being up 7 percent from a revenue basis and units being up roughly 2 to 3 percent or something like that. So we know that we've got ASP expansion there. The question is, can you hold on to it as the component costs change, and that will be a function of the competitive environment as we go forward. So it's a dynamic we watch pretty carefully.

ASPs within the storage business is a really sort of a different thought process. We don't really think about it like that because the configurations are so different on the offerings and the software that's embedded in it. So ASPs are a little less -- we don't think about velocity in the same way as it relates to ASPs in the storage business.

Jeff, have I missed anything, or would you highlight anything?

Jeff Clarke

I would add, start with the CSG business, the dynamics of our revenue growth are a combination, if you hit them, pricing efficiency, mix, exposure to commercial, exposure to notebooks, exposure to premium notebooks. So mix helps us. As well as our attach motion of attaching more financing, services, and peripherals to each opportunity. So that helps us on the CSG side. And I think that's sustainable.

On the server side, we are in the longest protracted DRAM price increase that we've seen in the last 25 years. Combine that with that we're putting more DRAM in a server today than we were last quarter, than we were a year ago, and you have a compounding effect. So that has been part of our revenue increase on the server side.

For me it's encouraging that the average amount of DRAM going in our servers and the SSDs, the average SSD size, going into our servers is increasing tells me we are selling higher in the enterprise workload. We are selling more higher-value solutions inside our customers, penetrating deeper configurations than we had in the past. And I believe that is sustainable in time.

Does that help?

Frank Jarman: Yeah, it's great. Thank you.

And then I guess just a second follow-up on the tax comments that you made earlier in the call. I think you said a net impact of about $300 million, which was a function of $1.3 billion of benefits related to the change in deferred tax assets and liabilities offset by $1 billion of a future transition tax.

And how should I think about that future transition tax? Is that, number one, is that specifically related to the repatriation provisions, and then secondly is there any sort of granularity you can give us with regards to thinking about it on the Dell EMC said versus the VMware side? Thank you.

Tom Sweet: Hey, Frank, it's Tom. So let me try and give you some thoughts around that. And let me first start to say, look, we're obviously big supporters of tax reform. The move to territorial, it's good for the economy. We're reasonably optimistic that some of the immediate expensing around the Capex will have a helpful impact on our business as we go through the year.

So as we thought about -- it's obviously a very complex calculation, and as we've thought about the piece parts, so the billion dollars of transition tax is how we think about the overall impact to the Dell technologies family. Some of that is clearly coming out of VMware. But I'm not going to parse it for you per se.

But we think it's very manageable in the sense of the cash impact of that, we think it's going to be substantially less from some NOL positions that we have. So look, I think it's very manageable. I think we're continuing to evaluate it because the environment and the regulatory guidance continues to get issued. But I'm reasonably optimistic about the go forward positions and the go forward impacts as we do the tax work.

Frank Jarman: Great. Thanks so much, guys.

Operator: Your next question comes from the line of Jason Kilgariff with Bank of America.

Please go ahead.

Jason Kilgariff: Hey, good morning guys. I just wanted to, I guess, kind of clarify something that's been touched on a couple of times. So you've reminded us that the fiscal first quarter is typically a down quarter. You've got about

$3 billion in maturities in the next three months or so. Is the current thinking you're still going to pay those off at maturity?

Tom Sweet: It's Tom. We are, and the current maturity schedule looks something like that we'll pay, we've got a $500 million sort of legacy piece of debt coming due in April. We've got a $2-1/2 billion coming due in June. And then we'll have some normal amortization of some of the term loans.

Jason Kilgariff: And the A3 matures at the end of the year in December.

Tom Sweet: But in terms of what's coming due in the next quarter is only $500 million. And then you get into Q2, and then you have $2-1/2 billion. And then Q4 is when the term loan ends. So it's spread out through the year.

And the intention is to pay them off in full. We may dip into the line to manage some intra-quarter dynamics around liquidity and position of cash around the globe, but that's the plan, which is why you've seen us build cash.

Jason Kilgariff: Okay, great. And then on the cash side, I think in the past you've said that you're comfortable going to about $4 to $5 billion of cash at Dell. Is that still the right level to think about?

Tom Sweet: Yeah, I mean, it fluctuates, but I think that's fair. It's probably currently closer to $5, and it real kind of depends as cash kind of fits temporarily in different locations, like China and India, which we continue to work to get out when we can.

Jason Kilgariff: Great, guys. Thank you very much.

Robert Williams: Regina, I think we've got time for one more.

Operator: Our final question comes from the line of Phillip Winslow with Wells Fargo.

Please go ahead.

Phillip Winslow: Hey, thanks guys for taking my question. Obviously just looking at VMware's filings, we've seen the relationship with Dell ramp in terms of that reseller agreement. When you look at the go to market synergies that you realized to date post the transaction, I wonder if you kind of could just give yourself a grade, obviously it's ramping, but what's worked, what's still in the common? When you think about 2019, fiscal '19, what are the focus there in terms of whether it be go to market or product synergies?

Tom Sweet: I'm pretty happy, actually, with the work that's been done on the synergy front in terms of revenue synergies. I think the teams have worked well together. I think we're working effectively as a family of Dell Technologies. We had first year synergy targets that we've exceeded as a result of the work that's been done by the collective teams.

We think there's more to do. As we think about the position where technology trends are headed and we think about things like ready nodes, VSAN ready nodes that are driving some of the software-defined movements that are more server oriented, so continued opportunity to doing more holistic integration with some of our hardware products with the VMware offerings.

So we think this is going to continue to ramp as we go through FY '19. We think it's beneficial both for our customers, and clearly for Dell Technologies, and for VMware. And so we're very optimistic about the opportunities. It doesn't mean we have -- we still have work to do in some of these areas as we continue to align our go to market positioning, coordination and efficiency at a customer level ensuring that we present one face to the customer. So there's some work to do in that area.

But overall pretty optimistic about -- and pleased, I would say, with where we are to date on the revenue synergies side.

Phillip Winslow: Cool. Thanks, guys.

Robert Williams: All right, great.

Thanks everyone for joining.

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

END