Dell Technologies

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Tim Long: Hello, everybody. Thank you for joining us here for this fireside chat with Dell. Tim Long here, Barclays IT hardware-cum-equipment analyst. First, I'm going to read the Safe Harbor for them. Dell Technologies' statements that relate to future results and events are forward-looking statements based on the company's current expectations. Actual results and events could differ materially from those expressed due to a number of risks and uncertainties, including those discussed in the company's SEC filings. The company assumes no obligation to update its forward-looking statements. Thanks again. We have Matt Baker, SVP Strategy and Planning from Dell here today, long time Dell employee, 18 years. So I'm happy to have his insights here.

Maybe, Matt, I'll start with the first one from here, and then I'll transition over there. Talk a little bit about kind of Dell's got a lot of businesses. So maybe talk about kind of overall strategy and kind of priorities over the next few years for you and guiding the direction of the company?

Matt Baker: Yes, sure. That's a great question. And if you've heard from us in the past year or two plus, the strategy is kind of unchanged, which is we operate in a number of very large core businesses across servers, storage, networking, et cetera. And our performance in those markets allows us to then extend into other adjacent areas. So executing on the core, obviously, is priority number one.

But we also have a number of net new opportunities that are, I would say, closely adjacent to those businesses, and those would be things like edge computing, multi-cloud, data management, security, et cetera. So in essence, you can think of it as a twin pillar strategy. And of course, we're very proud of -- and I have spoken a number of times today with all of the questions -- we're very proud of focusing on our durable differentiators because we believe that those help drive differential performance across both of those pillars, right? So our supply chain, our direct sales, our channel partners, et cetera.

So you put all that together, and we believe we have a very powerful engine with which to drive growth durably over the long haul. And of course, executing on our capital allocation strategy is also a priority that Michael, Jeff and the team have talked about at length. I'm the strategy guy, so I'll talk more -- less about the numbers and more about the thematics.

But those twin strategies of executing in our core markets -- and I won't bore you with all the numbers but we have consistently gained share in all of those core markets for quite some time. In fact, I was looking at our commercial PC share gains, which is like 35 of the last 39 quarters. So it's like -- it's an engine that keeps on running. And results from IDC came out last night as I was flying in, and it showed across the board we're gaining share in every category that we're

participating in today. So clearly, we got that first pillar of the strategy right. Now it's extending in and really starting to see an unfolding of opportunities at the edge.

And I get a lot of questions about what is this thing called edge, and it's caught up in the discussion of on-prem, off-prem, public cloud, all of that stuff. But the reality is, if you look at what people are trying to do with advanced data-centric workloads, what we all use shorthand for AI and ML, they're looking to do really interesting value-add things in the world around us. And I just happened to be reading one of our WinWires, which is just an email we get and looking -- I won't give the name of the company, but a very large grocery store chain is placing a number of servers in each store for a very specific use case around theft loss prevention for self-checkout and sort of, frankly, just walkout-type technologies. But then they're planning to add more infrastructure to help address things like liability risk. So looking for spills and, frankly, looking for people who happen to have fallen so that they can get right on top of them and make sure everything is okay.

So when we say edge, it's that computing in the world around us. And basically, depending on any number you look at, about 75% of data that is examined, computed, et cetera, is going to occur outside of a normal data center environment. So that is just a huge incremental investment in technology that we see underway. So that's the kind of play you see off of -- yes, that's a lot of servers. It's actually also a lot of interesting software to deploy that infrastructure in an environment where they don't have people who tend to manage infrastructure. So it has to be done with no hands, right? It has to be done all remotely. So that's where we're focusing our innovation in areas like that.

Tim Long: Okay. Yes, I did want to dig deeper into the edge because I know that's one of the adjacencies that others talk about as well. Just talk a little bit about kind of new solutions that you guys are going to need extending the server storage, networking security strength that you have. What kind of new product sets or newer technologies do you need to enhance that offering to be one of the leaders?

Matt Baker: Yes, that's a really good question because less is the world of IT about any individual component, it has to do with the combination of these components and sort of -- I like to use the term combinatorial value. So let's just take the example I just gave you. There is an ecosystem of companies and capabilities that one needs to assemble in these edge environments. So for the machine vision-type environments, the theft loss prevention is a classic machine vision type of use case, make sure someone paid, they get receipt, they walk out, they're not somebody who's gaming the system.

That requires typically, one, a fairly robust server, right? So greater content. And I get a lot -- we've gotten a lot of questions about server ASPs, why are they growing so much. It's the content required to execute this data and computationally heavy work. It's also the broad partnerships that we bring together, companies like NVIDIA, AMD and others. Because if you would imagine, looking at video data requires some sort of graphical processing. I already mentioned an area that we're developing software is for building, deploying and managing workloads in highly distributed environments where, frankly, there's not a lot of IT staff. You have to be able to resolve issues remotely. So those are the kinds of combinations that we're talking about at the edge.

I'll flip into another space in terms of this combination is multi-cloud, right? So you've probably heard us talk about multi-cloud. Every major public cloud platform and, frankly, private cloud platform, I would put VMware and Red Hat in the space, have developed operating systems that allow you to bridge between public cloud environment, on-prem environment, even an edge environment, so on and so forth. And one of the great challenges that customers face in those environments is, in essence, allowing data to flow in between those environments.

And so you've heard us talk about these quote-unquote projects like Project Alpine. Project Alpine is our effort to, in essence, take our expertise, our decades-long expertise in storage, reduce that to practice in software and then deploy that software in the public cloud, but also deploy that software in edge environments and in customers' data centers. And it allows us to use all of the really great innovation we have around replicating data, de-duplicating data, all of these things that allow customers to move data around so that they're able to marshal different capabilities. A lot of folks especially in this community, why do people use multiple clouds?

The reality is each of them has very unique innovations that they're executing on. A Google with data science, Microsoft with its heritage in integration with business applications, AWS with its innovation around ecommerce and all that goes with it. So all of these are -- I'll use the term different horses for different courses. They have a place in an application. And therefore, our goal is to allow customers to easily and seamlessly use and assemble all of this great innovation into a broader ecosystem, which means leveraging our expertise in data management as well as in application and systems management to pull this all together into a rational interworking ecosystem versus this big pile of stuff that is daunting to a lot of companies. Does that make sense?

Tim Long: Yes. Yes, absolutely. So maybe take that and look at a different angle here. When you look at your ISG business, traditional server storage, we're obviously seeing a lot of on-prem moving to public cloud. So maybe talk about how multi-cloud is part of the answer here. But just talk about how, from a strategy standpoint, you're looking at that evolution and maybe take that into how you see Dell participating more in public cloud deployments. Obviously, you guys are very strong in private cloud parts, but maybe talk a little about that.

Matt Baker: Yes. That's a really good question. So first of all, and not to be argumentative, but I don't think that the characterization of things moving from point A to point B is accurate. I think there are very few zero sums in our industry. And again, not to be argumentative, but it comes up in most of the questions that I get from this community. It is there are different solutions for different requirements. And public cloud, by the numbers, I just look at the numbers, by the number, has been a rising tide that's floated all boats, right? You would expect if it's zero-sum, then server revenues would crater and companies like AWS would go up. But they're both going up.

Tim Long: Yes, they're going up a little. Basically like the existing workloads are kind of staying on-prem and--

Matt Baker: Exactly and I'm using certain capabilities that they offer that are unique. I'm investing in those for certain workloads, and I continue to invest in these workloads. And remember, a lot of companies have regulations that require -- there's all sorts of reasons customers make decisions about where to place work. And work doesn't move as dynamically like applications. Data does move fairly dynamically. And so that's why we feel really strong that our position in storage gives us a leg up in helping bring order to what can be a chaotic multi-cloud environment. We want to take the chaos out of cloud.

But you asked the question, okay, that's the balance, right, like linking them together. But we also meaningfully participate in the public cloud. I'll give you a really great example that's been in place for over five-plus years, maybe even seven years. We have a product family called Data Domain. This is designed for storing backup data. And one of the great use cases for a public cloud is I don't have to buy another data center. I'll use their data center to back up my on-premises environment, and I have this great disaster recovery solution.

But I want to do that in a way that's very economical. So what we do is we deploy our Data Domain software as a system running in a public cloud, and we're able to reduce the amount of storage consumed that you pay for with AWS by up to 55x, right? So imagine the savings that we're delivering for a customer who is putting this sort of replicated data up into the cloud. So that was a very early and popular use case.

Now what we're doing with Project Alpine is pivoting to putting primary storage software capabilities into the public cloud for the very reasons I just described, which is I want to create this holistic data plane that stretches across environments so that I can access all of the goodness from all of these different cloud providers as well as deploy on-premises. And I would say again that it's interesting all of the major public cloud players are now making their operating environments available on-premises, right?

So Azure being Microsoft's public cloud, they have this thing called Microsoft Azure stack, which is something that we deploy and with -- it's a very large business for us right now. And it creates this nice balance for customers who are like, well, I've got some developers. They really like -- they've gotten used to and like Azure. I want to deploy that on-premises, and we can do -- there's different reasons why we would put them in different areas.

But I really want to link the storage meaningfully together. And then they say, I've got another set of developers that are really into GCP, Google Cloud Platform. They have a platform called Anthos, which we help our customers deploy on-premises to create a matching environment. And they're asking, hey, help us bring the storage thing together.

So it all comes down to we do other things in the public cloud, of course, but we really see storage as this area where we have tremendous decades' worth of expertise in IP that can help our customers really economize the way they use the cloud as well as unlocking innovation potential by enabling storage to, in essence, span across.

And I think we would all agree we're at this conference, not short -- sharing compute cycles, we're sharing knowledge with one another, right? And therefore, it is the storage, it's the knowledge that is a customer's real IP and making that more fluidly available across these environments just makes it easier for customers to innovate with data. And to be honest with you, that's what everybody is doing now is using data to innovate in their business.

Tim Long: When you have to sell this to a customer or position this to a customer, you still have to, I'm assuming, fight the battle of native storage on the cloud, but the idea is the optimization, the cost savings and the ease of use is what wins out over that.

Matt Baker: Well, there's a variety of factors. It's interesting. You can go through each and every -- and this just gets super technical, but there's different storage styles. And without getting too deep in the different storage styles, the public cloud players are really good at this thing called object storage, right? And the AWS innovation, their first product they shipped was something called S3, which was an object storage platform. They're not terribly good at block storage, especially really reliable block storage. And to be honest with you, they're not so great at file storage. We happen to be really good at both of those, right? And so it's complementary to their storage capabilities.

The other example that I gave with the Data Domain platform is there's not a lot of incentive for a company that bases its business model on consumption, like driving more consumption. It's not necessarily in their business interest to economize consumption, i.e., de-duplicate vast amounts of data. That's changing a little bit, but our technology that allows us to de-dupe all of that data is world-class and really allows us to help our customers economize the use of the native storage

because it's not -- we're not installing our own hardware. We're running that software on top of the components that the cloud provides.

So yes, it's ease of use. Yes, it's primarily creating the sort of level playing field, maybe that's the wrong description, but this fluidity between environments, which is important as well as helping economize. And frankly, we're really good at storage reliability. And if you go look at historical challenges that customers have had with creating reliable cloud applications, a lot of times, it's been the storage element of it that has tipped over and created challenges. And so those are areas where we just think we can help troubleshoot and provide incremental value and unlock.

I'd like to say there's so much innovation going on in the world around us around technology. It's like why would you want to be not locked in -- I'm not going to use the term lock in, but why would you want to really focus only on one vendor and provider? You know what I mean? You want to get all of it. So we're really excited about building ecosystems. And I think the next decade or two, you're going to see greater focus on ecosystems.

Tim Long: Right. Okay. Great, great. I wanted to -- there's a lot of talk from your peers, and you guys as well, as a service model. Can you just kind of walk us through where Dell is in that journey? Where do you think -- what do customers think about it? What segments is that going to have more traction than others?

Matt Baker: Yes, it's a really good question. Certainly, subscription-oriented consumption is something that we've been doing for over a decade. We have this wing of our business called Dell Financial Services. And while, yes, a lot of what they do is traditional leasing, we have, for a long time, had something that's called Flex on Demand. We actually called it Flex on Demand more recently. But it is, in essence, a subscription-like consumption service for basically our entire portfolio. We also have an offering for customers who kind of want to get out of managing their infrastructure, something called Data Center Utility. So we're very used to doing it.

That model, though, if you go back, that's pre-cloud, right? So in a lot of ways, this investment that we've made in APEX is really to bring a modern customer experience to it, right? So something that you can easily point, click, consume. So when we've talked about and demonstrated APEX, a lot of it is demonstrating the console and the user experience and simplifying that so that's more transparent for the broader company to consume.

Now, if you get under the covers, the term as-a-service has a lot of different iterations, right? So one is as-a-service would mean subscription-oriented consumption and economic model. One example would be that you've constructed a platform that allows you to more easily distribute net new innovation to your customers on a continuous basis. One reason why you look at the tower of salesforce.com is right outside, it's popular because I get a new little feature in a week instead of having to wait for it to be refreshed by IT. So us building that same kind of continuous innovation delivery into our products is another part of it, and that continuous value is a hallmark of as a service.

And then there's the managing it for you, right? And so we provide value across that full spectrum. True, a lot of business is the economic component. Increasingly, we're building more of that continuous innovation like almost like a river of innovation that comes out daily versus, again, waiting for a major product refresh. And so that's the nature of what we're doing. I will say that there are different sectors that want to utilize an OpEx model that drives them to something like Flex on Demand. And early on in the life cycle of cloud, you have to remember -- again, I'm the strategy guy, and I'm certainly not an accountant but there was some advantage to OpEx before. I don't know, I think it was like -- it was some acronym. But it was basically a new guidance, GAAP guidance. And it basically took out that OpEx advantage that the cloud had enjoyed.

But people were like, I kind of like this. It's predictable. I don't have to pay in these big lump sums. And maybe when I need to preserve cash, it gives me a little bit more of a cash preservation opportunity. So I think today it's very popular with people who are very smart about money. I'm not sure it's as popular with your average person who looks at it and says, would I rather own it or would I rather buy it? And a lot of this goes into these debates about public cloud. Is public cloud cheaper? Is on-prem cheaper? It's like, really, you've got to get down under the covers to understand what is more economical because on its surface, for example, I don't get why people ever thought public cloud was going to be cheaper. Any rental model is going to be more expensive. That being said, if I come here for a week, I'm not going to the car lot and buying a car. I'm going to rent a car. So it comes down to working our way through.

There's reasons, there's really good reasons why you would want the economic model. There are very obvious reasons why getting more innovation coming through regularly versus in these big annual releases of capability. So I think those are the things that are driving the interest in as a service. And certainly, it's amongst this community. It's like, okay, well, there can be economic advantages for vendors as well. It's more of this sort of sticky flow of consumption that you enjoy in those models.

Tim Long: Okay. Maybe just pivot for a few minutes to the PC side. You talked about a lot of these share gains you guys have enjoyed. What's the strategy there? Obviously, we've kind of almost come full circle from the COVID bounce. But outside of that, maybe talk about how you're thinking about that business and kind of what's going to help continue to drive that level of success?

Matt Baker: Yes, well, as the strategy guy and the guy who spent most of his life in our ISG, our infrastructure business, I come to an event like this and almost every -- like 80% of the questions are tell me about the PC business. So look, first of all, the thing that I would say is, when you look at Dell, you need to consider that not every PC is created equal. We participate in different parts of the market, and our strength is in different parts of the market. And on balance, that tends to be the commercial PC space, right?

And we firmly believe that the commercial PC space. One, it's just -- it's a much more valuable, much more valuable business I think. The average commercial PC is around 3x more lucrative than a Chrome PC, and then a premium consumer PC about 2x more valuable than your sort of work a day consumer PC. And so we tried to bias our participation into those more lucrative spaces, and that's our balance of business today.

I think what we're talking about this pre-COVID, post-COVID, that's the most popular question I've gotten today and, frankly, we get most of the time. And it's around the conviction of we got up to 350 million units out of -- going into it, 250 million units, why isn't it going back to 250 million units? And I think that's the tale of two different markets, right? Chromebooks, low end or entry consumer PCs, they're more of an elastic-like environment, right, where we're going to see those sort of move in the way they move.

That being said, if you think about the pandemic and what it's done to work, the nature of work, the way that I -- I'm the strategy -- I keep saying I'm the strategy guy as a dodge for the free cash flow question. But the reality is, is that we just experienced the largest labor restructuring and work style change since World War II. That's a huge opportunity, and we're not going back, right?

This segment, it's interesting. I asked the question is like, well, why aren't we all going to go back? I'm like, well, if I were in your segment, I would expect that because a lot of financial companies are like, you're coming back into the office. We are still largely remote. We're all just going to find a level and that level is going to be something in between, right? And with that, comes this

huge opportunity. First, it solidified the primacy of the PC as the thing you get work done on. It's not like tablets flew off the shelfs during the pandemic. It was PCs because people needed to get work, homework, work work, government work, military work, whatever work, it had to get done. And the PC was the way they got it done.

So we're convicted that in the commercial PC space and in the premium consumer space because it ended up being -- everyone in the house now has a laptop, whereas before it may have just been one, right? So we think that this comes out to be, it's not 250 million -- yes, it's probably not 350 million, but it's somewhere in between. And structurally, that means there's a significant amount of more business in the PC space. So we're bullish on the PC environment. I should say the long-haul PC space. Are we going to see some buffeting based on the macro and, frankly, coming off of this pandemic streak? Sure. But over the long haul, we see sort of a durable growth of the PC segment.

And more importantly, I mentioned, they're not created equal, and continued enriching of the PC segment as people do more immersive real-time. We talk about the metaverse, but I would say the Zoom experience is going to get a whole lot better in the future, right? The collaboration experience on a PC is going to get a whole lot more compelling in the future. We still haven't figured out white boarding. If I was an engineer, I'd be like, oh, my gosh. But someone's going to figure it out. And when they do, every engineer at every company is going to have whatever that widget is. And we hope to be the one to bring that to that guy.

Tim Long: Okay. Maybe one last one as we are wrapping up here. Wanted to talk a little bit about security. You mentioned it early on, it's a difficult end market and I guess you guys incorporated it in the products in different ways. So what's your vision of Dell's participation in value creation in security?

Matt Baker: Yes. It's a really good question because this one consistent question that came up for anyone covering security. They're like, well, the security world has gotten kind of weird in the last quarter. And it is a very strange -- I wouldn't say countercyclical, it's almost countercultural. It's just -- it's this thing. That being said, if data is the most important asset that's created at a company, then you got to try like hell to protect that, right?

And so for Dell, the first step is data protection. You'll get people arguing whether or not data protection is security or not. I was a security practitioner. I was an IT person at one time in my life. Data protection is sort of the -- it's the last lifeline of saving your business, so you have to have it. That being said, we see a lot of really interesting opportunities going forward. And I've mentioned the term ecosystem as well. We believe assembling an ecosystem of security partnerships is really important, leveraging the capabilities we have today as well in terms of our MDR services.

So we have services that allow us to monitor all of the activity within your network and on your PCs to discover whether or not something's going on. And we do that for customers who don't maybe have a CISO or a Chief Information Security Officer. And so we're making investments in services in this ecosystem.

The last thing I would mention, you keep hearing this term Zero Trust. We are leaning heavily into zero trust because what zero trust does is it takes what is somewhat a flawed model today, which is -- if I get -- if I show my badge once at the front door, I can go into every room of the building. That doesn't work anymore, right? I have to be able to show my badge for every door I go through, and I'm using a bit of an analogy with a building.

But today, businesses are more porous because we're doing business in more locations. And therefore, the old way of doing security, which used to be described as like a Dove bar. It's crunchy on the outside and real gooey and soft in the middle. You can't have a gooey center anymore. You have to harden that up, and that's what this zero trust philosophy is about. So you'll hear us talking about zero trust.

And we also have some really interesting sort of public-private partnerships that we're working on today with the DoD and others to help shed a light on what does zero trust look like going forward. So zero trust is, I think, something you'll hear a lot more about us, and that is designed to try to sort of correct that countercultural Wild West environment that is the security market.

Tim Long: Awesome. Now I want ice cream.

Matt Baker: They may be serving it. Thank you, everybody.

Tim Long: Awesome. Thanks for joining, Matt.

Matt Baker: Yes. Thank you.

Tim Long: I appreciate it.

Matt Baker: I appreciate it as well.