All right. Perfect. Good afternoon, everyone. Thanks for joining us. My name is Amit Daryanani, the IT hardware analyst from Evercore, and we're really delighted to have with us the team from Dell's Financial Services segment and for us to have the opportunity to understand how DFS functions within the Dell organization broadly and how do really credit agencies eventually view DFS in terms of leverage and the path to investment grade rating.

So we have with us from Dell management, Bill Wavro, President of DFS; Colin Keaney, the Chief Financial Officer of DFS; and Tyler Johnson, Treasurer of Dell Technologies. Before we get started, a couple of housekeeping items I need to go through. First off, in terms of format, we intend to run this call close to 60 minutes. We will have some prepared comments from the Dell management team, followed by Q&A.

If anyone has any questions, please feel free to e-mail them to me, and I can ask them on your behalf or send me a chat on Zoom and I can get those questions answered.

Now this is the exciting part for me. I've always wanted to read the safe harbor statement, so here it goes on behalf of Dell IR. Statements on this call or in the accompanying materials that relate to future results and events are forward-looking statements and are based on Dell Technologies' current expectations. Actual results and events in future periods may differ materially from these expressed or implied by these forward-looking statements because of a number of risks, uncertainties and other factors, including those discussed in Dell Technologies' periodic filings with the Securities and Exchange Commission.

Dell Technologies assumes no responsibilities or obligation to update its forward-looking statements. With that out of the way, I will turn it over to Bill and the Dell team to go through the slide deck and the prepared comments. Over to you, Bill.
Bill Wavro

Yes. Thanks, Amit. It's great to be with you and appreciate all of you joining us on the video call to talk about Dell Financial Services, or DFS, as we call it. Let me start by highlighting some important takeaways the investment community should understand from our discussion today. First, DFS is integral to the overall Dell Technologies business strategy. We provide our customers and partners with choice and flexibility so that they can acquire the technology they need to transform their businesses and pay for that technology over time. And we also play a pivotal role in the development and delivery of as-a-service and flexible consumption models.

Second, we have created significant synergies with VMware, and we have grown this business significantly over the past 4 years. And Colin will talk a little more about our relationship with VMware in a few minutes. Third, DFS delivers solid profitability. We don't report stand-alone DFS results, but you should know that DFS is embedded in all our business unit P&Ls, including VMware. And Tyler will walk you through the cash flow impacts of DFS later in the presentation.

Fourth, we are growing our asset base as well as diversifying geographically. As our DFS assets continue to grow, you should expect our corresponding DFS debt to grow in tandem. Over the years, we have built an efficient funding model that delivers competitive cost of funds and an optimal liquidity profile for DFS. And then finally, we will cover how rating agencies view DFS. Largely, they distinguish between DFS debt and core debt when thinking through our leverage and getting back to investment-grade ratings at the corporate family level. And then finally, following our presentation, as you mentioned, we'll take some questions.

So now I'd like to cover a few things about our business and point out some key highlights. Today, more than ever before, technology is key to enabling business continuity and staying productive. Its importance is even more evident over the last 6 months as people and organizations have turned to technology to help them work, learn and stay productive in a new environment. We're seeing this across Dell Technologies' portfolio of products and services and we're seeing it in all customer segments. And DFS is playing an important role here. We've been a strategic part of Dell Technologies for the past 2 decades, delivering financial offerings and helping customers pay for their technology as they consume it.

We've also been offering flexible consumption and as-a-service type solutions for the last 14 years. Our team partners with sales to understand customers' needs and provide a wide variety of payment solution options, giving customers choice and flexibility. We're there at the beginning of the sales cycle, helping customers understand not only what technology they need, but how are they going to pay for it.

Now let me cover a few organizational highlights. First, we're global with significant scale. DFS manages over $12.5 billion of assets. And to put that size in perspective, the 2020 Monitor 100 places DFS in the top 20 equipment leasing companies in the U.S. based on asset size. DFS serves all business in public segments in countries where we have a presence today.

In the U.S. and Canada, we also provide consumer financing. We're in 23 countries with full operations and we support Dell Technologies through partners and sales teams in another 27 locations.

Second, DFS is key to the Dell Technologies' strategy of delivering differentiated solutions to our customers through innovation and integration. Having industry-leading solutions is a great starting point, but customers' needs often go beyond hardware, software and services. Customers are increasingly interested in preserving cash flow, whether it be through traditional financing or leasing or just paying for what they consume. They're also interested in OpEx versus CapEx models as well as flexible consumption. We offer a number of traditional financing and innovative payment solutions that we have developed over time, and we continue to create new solutions and as-a-service models based on customer interest and customer feedback. I'll talk more about these in a little bit.
Third, we deliver solid profitability. We typically don’t disclose or discuss DFS stand-alone P&Ls, but our return on equity has been robust over the past several years, with returns generally in excess of 15%. And we have achieved this level of profitability against the backdrop of significant growth in our commercial and enterprise portfolio, which tends to have a lower profitability but also a corresponding lower risk profile relative to consumer. We've also done this in a historically low interest rate environment globally.

Key factors in these strong returns include a strong focus on operating efficiencies, strong asset management into lease capabilities, low loss rates and an efficient funding structure. And Colin and Tyler will talk more about loss rates in our funding structure. Lastly but not least, we are committed to our sustainability efforts and Dell’s social impact goals. I’m proud to say that DFS has led the charge in creating sustainable end-of-lease programs for our customers and 100% of our return lease assets are refurbished or recycled. So with that, I want to turn it over to Colin to talk a little more about our business and our customer portfolio. Colin?

Colin Keaney

Thanks, Bill. Good morning, good afternoon, everybody. As Bill mentioned, DFS supports Dell Technologies in 23 countries and a further 27-plus through our partner network. Although DFS has grown its portfolio over the last 2 decades through a combination of acquisitions, including in EMEA and Canada, the establishment of an Irish bank and start up our organic growth in locations including Mexico and more recently in Australia and New Zealand.

I just want to take a minute to talk about the bank. DFS established a bank in Europe for a number of reasons. Having a bank incorporated in an EU country allows us to pass border offerings within the European economic area, thus avoiding the need for the core complexity of establishing legal entities in each jurisdiction DFS operates in. It also allows DFS to offer a full suite of products in all countries, regardless of whether those products are regulated or nonregulated in nature. And also, it allows us to access the capital markets much more extensively and at competitive rates.

Our originations over the last 12 months were $9.2 billion, up 24%, and exiting Q2, our managed assets were, as Bill mentioned, $12.5 billion, up 22% year-on-year. Just to point out, this excludes our consumption offerings of Flex On Demand and data center utility. From the chart, you can see the growth in our managed asset, which highlights some of the significant synergies from the VMware and EMC transactions where DFS has played a key role. A significant portion of our growth since late calendar 2016 has been fueled by storage and software financing.

In FY '20, for example, we financed $1.4 billion of VMware product globally, up 15% year-on-year. This is approximately 7x the VMware financing done pre transaction. Additionally, ISG, which includes EMC, now accounts for 40% of our portfolio mix.

Changing to looking at this from a customer lens perspective, we were roughly, if we went back earlier in this chart, 40% consumer in FY '12. Today, we are closer to 95% commercial and enterprise and 5% consumer, excluding our consumption-based offerings. I would also like to highlight (inaudible) DFS. Channel was nearly 40% of our originations last fiscal year. This significant shift in our portfolio mix away from consumer towards commercial and enterprise and infrastructure products has reduced the risk profile of our portfolio and strengthened the stability of our DFS earnings.

In conjunction with the treasury team, and Tyler will go into this in more detail later, we have expanded our funding base globally with a number of different vehicles that support our portfolio of growth at competitive rates. The expansion of our funding capabilities and the associated rates reflects the attractive nature of our asset portfolio. And then finally, while our portfolio has continued to grow at a robust pace, we have remained focused on prudent credit adjudication. We have also carefully managed industry and country concentrations accordingly.
Next slide, please. Our DFS portfolio is comprised of primarily high-quality fixed-term receivables, and you can see in the bottom left-hand chart, 60% of our portfolio is now investment grade.

And you can see that, that has increased substantially since the VMware and EMC transaction in FY ‘17. Not surprisingly, with credit quality increasing, underlying losses have remained modest due to the essential use nature of IT that we’re financing: a higher enterprise asset mix, which is less susceptible to economic downturn; a higher mix of fixed-term assets, which come with a lower loss profile; and just the overall improved credit profile of our portfolio. Overall, net credit losses have fallen due to a higher fixed-term mix, which has grown from 82% in FY ‘17 to 92% in the first half of fiscal FY ‘21.

I also want to kind of point out the 90-plus day delinquency rates. In more recent times and even with the challenges presented by the global pandemic, our portfolio of delinquency continues to outpace expectations, performing at or better than pre-COVID levels. So with that, I'll hand it back to Bill.

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**Bill Wavro**

Yes. Thanks, Colin. Great summary. So this slide summarizes the way that we view payment options for customers. And with respect to payment options, our purpose is to provide the most competitive, innovative and flexible payment solutions in the industry today. And we believe we make our customers more successful by better enabling their digital transformation.

COVID has created some significant changes in the technology landscape. We’re seeing technology acceleration as businesses move to a remote work setting and adopt digital tools to help -- which to deliver to their end users and help them be more productive. And customers are telling us that they need technology to manage and secure data. They're budget constrained and they lack often the in-house skills to deploy these technologies, so we have the opportunity to make a real difference here.

Delivering industry-leading hardware and software, providing life cycle management through services and delivering the payment options is merging and converging into one conversation. And customers are asking for more simplicity in how we deliver these solutions and how they pay for them. So oftentimes, a customer will want a traditional CapEx model. That's on the far left. And of course, that's available. But other times, customers want to spread payments out over time, and DFS can meet much of this need by providing traditional loans and leasing options at very competitive rates.

And as an alternative though, traditional financing, increasingly, we're seeing customers looking for flexible consumption models, where they can pay for what they use and, more importantly, scale their needs up or down. And we're offering our customers choice. We have industry-leading service -- as-a-service and flexible consumption models through DFS and Dell Technologies On Demand. The customers are telling us they want 1 - - all-in-one pay-per-use bundles, including hardware, software, services and maintenance. And Gartner estimates that by 2022, 15% of all new deployments of on-prem computing will involve some form of pay-per-use pricing, which is up from 1% in 2019.

So Dell Technologies On Demand ensures that our customers can build, acquire and consume technologies in whatever way is best for them on their own terms. And we're seeing increased adoption of these flexible consumption solutions, which for us are now on a $1.3 billion revenue run rate exiting the second quarter of this year, which is up 30% year-over-year. And we're going to talk more about Dell Tech On Demand and flexible consumption at Dell Technologies World later this month. So stay tuned. Now I'll turn it over to Tyler, who's going to talk about our capital structure.
Thanks, Bill, and hello, everybody. So I'll spend a few minutes here talking about the DFS capital structure. As Bill and Colin highlighted, DFS has experienced tremendous growth over the last few years. And it's helping to establish strong relationships with our customers and helping to enable both core Dell as well as VMware.

As the DFS business and assets have grown, so has the debt that we have issued specifically to fund DFS. As Colin shared, the DFS assets have more than doubled and are up by over $6 billion since the EMC transaction. The debt we have placed to fund DFS has grown at the same pace, with DFS external debt growing roughly $5.3 billion. This is the DFS-related debt that excludes allocated corporate debt.

You can see from the chart that as of Q2, we have $10 billion of DFS-related debt on our balance sheet, with $8.8 billion being DFS-specific external debt and $1.2 billion being allocated corporate debt. The external DFS debt we issue is primarily securitized term or securitized revolving debt, which establishes the cash flows predominantly associated with the portfolio of assets being structured in these facilities will be used to service the DFS debt.

To be very clear, our DFS debt is paid with cash flow we received from customer financing receivables. We do not need free cash flow from the business to address this portion of our debt. This is an important point when you break down our aggregate debt structure. If you listen to our earnings calls, we talk a lot about this.

Again, the underlying assets are high quality, largely investment-grade receivables on the commercial side with a loss profile that has averaged less than 1% over a long period of time. This performance has allowed us to drive an optimal cost of funds and liquidity profile through various funding structures. We get a lot of questions about debt allocated to DFS so let me address that right now. In line with both S&P and Moody’s, we assign a 7:1 debt-to-equity capital structure to the DFS business, given the large commercial versus consumer asset mix, so it’s about 90% commercial and the low commercial loss rate previously mentioned. The 7:1 debt-to-equity ratio is a relatively common capital structure in instances where technology corporations have captive finance subsidiaries.

As rating agencies like S&P and Moody’s assess a potential crossover to corporate family investment-grade ratings, they exclude DFS-related debt when considering leverage and make the corresponding adjustment to our EBITDA for the estimated profitability of DFS. Now they don't ignore DFS-related debt, but recognize the distinction between the debt used to fund our financing business versus the debt used to fund the core business. For your reference, we’ve added a page in the appendix to help walk through the 7:1 calculation that both Moody’s and S&P make.

Now turning to the next page. Here, we provide you with a more detailed breakdown of the composition of our DFS debt portfolio. The biggest takeaway here is that in aggregate, DFS debt is fully supported by DFS receivables, and over 65% of DFS debt is nonrecourse to Dell Technologies, reinforcing the practice of removing DFS debt from core leverage discussions. The second takeaway here is that we have a very diversified and efficient funding structure, not relying on a single market or funding source to finance DFS.

While we have a long history of revolving securitization of over 15 years, we've consistently evolved and optimized our capital structure, including the addition of term securitization a little over 6 years ago. Our most recent term securitization, which was issued this past month in the U.S. was for $1.2 billion, which priced for an all-in yield of just 66 basis points, very attractive pricing.

This is our second issuance of the year, with the first done in April, highlighting access to the securitization markets even during relatively uncertain times.

In addition to the incorporation of term securitization, we also started using senior unsecured investment-grade euro notes to fund our European captive finance operations. Our inaugural euro bond was done 1 year ago this month with our latest deal in June of this year, both of which were investment-grade rated EUR 500 million euro bond offerings. And as a complement to both revolving and term securitization, we have placed collateralized loans and bullet maturities as the business has continued to expand internationally. Our history of localizing and
diversifying our sources of funds has served us well, resulting in a competitive cost of funds and providing the liquidity necessary to fuel our growth while significantly reducing the reliance on the parent.

Now finally, having spent time talking about DFS, I wanted to end by bringing the narrative back to the focus we have on reducing core debt, something that we are extremely focused on. Our primary objective from a capital allocation perspective is to reduce core debt and get back to investment-grade ratings.

Our tireless focus in this area has yielded almost $15 billion in core debt paid down since the EMC transaction through Q2 of this year. We've been able to achieve this while simultaneously enabling our core and captive finance business. Over the second half of this year, we are committed to paying down another $5.5 billion in debt, with $2.5 billion of the 2021 senior secured bond already paid down quarter to date.

Our liquidity position remains strong with no debt maturities due for the remainder of this year, strong cash flow balances exiting Q2 and $5.5 billion untapped corporate revolver. I feel confident in the trajectory of our debt paydown path to strengthen our liquidity position and our ability to continue to enable the business to win in the marketplace. So I'll stop there. Amit, I'll pass it back to you, and I think we're ready to take some questions.

Q U E S T I O N S   A N D   A N S W E R S

Amit Daryanani

Perfect. That was really helpful. I've covered Dell for a long time. I don't think I appreciated how extensive DFS was in terms of size, so I really appreciate this.

I guess, maybe to start off the Q&A, Bill, the first one's for you. Can you maybe just help us think through what percentage of existing customers or customers broadly utilize the services offered by DFS? And then any thoughts on what are the customer profiles, either from a customer size, industry vertical or geography perspective that actually use DFS?

Bill Wavro

Yes. Thanks, Amit. Well, Colin mentioned the $9.2 billion of originations that we've had over the trailing 12 months, so you can see that it's a pretty large amount of Dell customers that are utilizing DFS. And we referenced and you referenced yourself the doubling in size and the great increase that we've had over the past years. So we believe we have a very strong value proposition to customers and that utilizing DFS brings tremendous value to our customers.

I think in terms of utilization rates or -- and we refer to them as penetration rates, they can range anywhere from low single digits up to 50%, depending upon the customer segment. And there's a lot of factors that drive that but let me give you a few examples. Small and medium businesses tend to struggle with access to capital. So that would be a segment of our business, which likes to utilize DFS and where we have higher penetration rates. Those customers are looking for that access to capital to help transform their business and help grow their business.

You'll also see companies that have large data center spend, companies who are trying to transform their environment and companies that are growing quickly and need to spend large amounts on IT will also likely to utilize Dell Financial Services to help finance those. I mean, essentially, these customers have to make large upfront investments to recognize the value of the technology over time. So our DFS payment solutions help them spread that cost over the period of time that they're actually going to utilize the technology.

And then a more recent example would be what we're all facing with the pandemic now on COVID-19. A lot of companies and you probably saw this went to preserve cash and capital right away, right? A lot of companies
took out revolvers and loans and were really paying attention to the cash that they had on hand. So we did see even nontraditional DFS customers come into our customer base over the last 6 months as they looked to preserve cash and capital during uncertain times.

And then the other thing I'll point out is we talked a little bit about flexible consumption. And one of the things we didn't mention is one of the benefits of flexible consumption is not just that customers pay for it over time or pay for it even as they use it, it's that they have ready access to that technology. So for example, a company who has large data needs and maybe those needs spike up and down or have been growing very fast, they can deploy that technology upfront and then only activate it as they need to use it later.

A typical customer, when they have to go out and acquire data storage capabilities, that can take a long time. It can take, in many cases, up to 90 days. Customers go through their own internal procurement cycle. They have to select the technology. They've got to order it from the vendor, and then they've got to have it delivered and deployed. That takes a lot of time. So by using products like flexible consumption, they're able to have that on-site and really, at the flick of a switch, be able to activate that additional storage capacity without having to wait. So that's another benefit. And we're seeing more and more adoption of that as we go through time.

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Amit Daryanani

Got it. Perfect. And then I guess one for you, Colin. Maybe you can just walk us through the mechanics of how a customer transaction works when it involves DFS, really both from a revenue recognition perspective. And then also how does that flow through your P&L as you have a DFS transaction?

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Colin Keaney

Yes. Sure, Amit. And I think there's 2 perspectives to that. I think there's the Dell Tech lens and then there's the DFS lens within that. So from a Dell Tech perspective, as we look at kind of -- and I'll talk to what I'll call the more kind of traditional financing of leases or loans where we're financing software, really, it will follow normal accounting convention. So for any finance or sales side leases, including kind of loans, revenue will be recognized upfront. In the case of your more kind of operating leases or Flex On Demand offerings, revenue is accreted or recognized over time at a Dell Tech perspective.

From an overall kind of DFS when you think about what comes into our P&L, you're going to have elements, the interest earned, interest margin, end of lease revenue, et cetera, like that, what we kind of take from that and what we earn on a monthly basis. And as Bill mentioned, we are not -- DFS is not a separate reportable segment, so the returns that we get are ultimately allocated back to the respective BUs, so whether that be CSG, ISG, etc.

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Amit Daryanani

Perfect. And I guess, Tyler, a question for you as well. I guess when I think about it -- I'm sure when most people think about a 7:1 debt-to-equity rate ratio for DFS business, it seems fairly high, but I think it is roughly in line to what some of the captive financing arms of your peers have as well. Maybe you can just talk a little bit about how do rating agencies view this type of leverage? What's the target range that you have for DFS specifically? And then I guess, broadly, what are the other financial metrics that we, as investors, should pay attention to as it relates to DFS specifically?
Tyler Johnson

Yes. Yes, sure. I mean, you said it. I mean, a lot of our peer companies use a very similar metric. And to a certain degree, we take our cue from the rating agencies because both S&P and Moody's, when they're doing their own calculation, they're also using the 7:1 ratio, right? And it kind of makes sense, right? Because when you think about the levels of disclosures when you're looking across different companies, there's going to be different types of disclosures, so they want to pick something fairly uniform and consistent.

As I think of it specifically for Dell, look, I think 7:1 is actually fairly conservative, especially when you look at the low losses that we see across a very high-quality portfolio. One way to think about it is if you look at a commercial portfolio where you're probably going to see lower losses versus a consumer portfolio, you're going to blend a -- you're going to take a higher debt-to-equity ratio on the commercial portfolio versus consumer. And then when you blend that together, you get to roughly the 7:1. And even historically, if I go back quite a ways, when we had a higher percentage of consumer, we ran it really then the way we model it was probably closer to 5:1. So I think growing to 7:1, given the evolution of the portfolio makes total sense.

And I think in terms of metrics, look, the key metrics really, I mean, losses are obviously a very good indication of the credit quality of the portfolio. And I think the other thing that's probably important to watch here are -- is delinquency trends and really probably more paying attention to the 90-day plus so you kind of move out more administrative type delinquencies.

Amit Daryanani

Got it. I have a whole bunch of questions from folks on the call, so I'm going to try to incorporate them as we go along. But one of them related to perhaps right where you ended, Tyler, was how have these metrics, right, loan loss ratios or delinquency rates and so on, how do those metrics stand today versus perhaps last recession? Is there a way to think about where we are today versus maybe a decade ago or 12 years ago when you had the '08, '09 recession?

Tyler Johnson

Yes. Maybe, Colin, that might be a good one. You might have more insight there than I do.

Colin Keaney

Yes. Yes. I'm happy to take that one, Amit. And I think I would look to that through 2 lenses. I think there's a portfolio, a DFS portfolio lens and I think there's a macro economy lens. But let me kind of hit the kind of the data point that you asked in the question. So going back to the '08, '09 crisis, at probably the height of things, our consumer portfolio, which was significantly bigger than we have today. As I pointed out, it's only kind of 5% now. It was probably in the low teens, the losses that we took at the height of the crisis.

The commercial and enterprise business, which is now 95% of our kind of portfolio, that probably is high, I think probably a little over 2% at the height of the crisis. Then if you look and kind of fast forward to our portfolio today and you can kind of see from the data that I spoke to on one of the earlier slides, our fixed portfolio is down at 30 basis points and that's been fairly kind of consistent. It was probably 50, 60 basis points and continue to come down.

And there's a number of factors driving that. Obviously, the increase in the investment-grade nature of what we're financing, so even since the EMC, VMware transactions 50% to 60% where it is today. Also as well, and I probably want to touch on the essential use nature of what we're financing and we really see this. We are
financing corporations, companies, sort of the small businesses to large corporations, their IT infrastructure. And we find that even when those companies get into difficulties, they do whatever they can to work with us to find a solution because if they can't retain that IT infrastructure, they essentially don't have a business. If we were financing something else like maybe vehicles, it's maybe not quite as essential. So having that essential use nature of what we're financing, the profile of our book, the nature of the assets, the investment grade is quite a difference in terms of the loss profile.

I think there's also a macro piece going on as well. I think if you go back to '08 and '09, there was a lot of things probably wrong in the market. There was like an overextension of credit. The capital markets really froze, lack of regulation. I think what you're seeing through the kind of pandemic now is capital markets are still clearly open. Tyler talked about how we, even in the last 6 or 7 months, what we've been able to do, reflecting the high quality of our assets. And I think you've seen whether it's central banks or governments themselves to kind of monitor your fiscal stimulus, they've been really kind of quick to act.

So I think you've got the macro landscape being different. But inherently, we feel the profile of our portfolio with that high commercial enterprise mix, investment grade and what we're financing really makes it a high-quality portfolio.

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**Amit Daryanani**

That is really helpful, Colin. And I guess, maybe if I just go back to the rating agency dynamics, and Tyler, you sort of touched on how rating agencies, I think, DFS debt for the core -- for the aggregate Dell Technologies, I should say. I'm curious, how do they think about your DFS EBITDA contribution in the whole analysis as well?

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**Tyler Johnson**

Yes. I mean, look, as you would expect, right, I mean, we're backing out the DFS debt. You also need to take away the DFS profitability contribution, right? So when we look and talk about our core leverage metrics, it is focused purely on the core debt, excluding DFS and then core EBITDA excluding DFS. Now we don't publish the DFS profitability metrics so that's not something you can pull from our financials.

And instead, we use a proxy and we use a 4% ROA. And the reason we picked this as the proxy for the DFS EBITDA is we estimate it's roughly in line with our peers, looking at kind of what they published. And actually, it is the same methodology that move these users, so we're very comfortable that it makes sense.

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**Amit Daryanani**

Got it. I guess another one, and this is -- I know I get this question a ton from investors when we talk about it, but maybe you could just walk us through the theory behind all the adjustments that you guys make to your free cash flow due to the DFS funding. Maybe just walk us through what those items are and the logic behind them.

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**Tyler Johnson**

Yes. I mean, look, this is something we think is extremely important for people to understand, and it is something that we try to really emphasize during our quarterly earnings, right? So similar to debt adjustments we make along with the rating agencies, we calculate our adjusted free cash flow to remove the impacts of DFS. So let me just explain that a little bit.
So DFS originations negatively impacts CFOps and CapEx, and obviously, that's free cash flow, right? However, as I've talked about, we're really efficient in funding DFS using tools like securitization. And that actually though has a positive impact to CFF, right? So there's a geography mismatch here in terms of the outflows and the inflows. So to normalize those impacts, right, we remove the impact of the growth in financing receivables from CFOps and the impact of the DFS operating leases from CFI. So again, the adjusted free cash flow metric simply adds back the outflows in operating cash and CapEx, which are associated with this growth that you're seeing in DFS, given our ability to ultimately finance that business efficiently in the capital markets.

There's actually -- if you look in the appendix, there is some detail and more color around this calculation. So adjusted free cash flow, right, which removes these impacts of DFS is a better proxy to measure the free cash flow generation that we have that's available to pay down core debt. And look, there's a lot of focus there on paying down core debt, so we want to make sure that people understand what cash generation the company is actually contributing to that debt paydown.

Amit Daryanani

Got it. And I guess maybe if I could extend this discussion a little bit on securitization as well. Maybe just talk about -- you could talk about the securitization of DFS-related loans, and to the extent you either sell or offer these asset-backed securities to the debt markets, what are the implications of that and how do you kind of look at that dynamic?

Tyler Johnson

Yes. I mean look, I talked about, and there's that 1 slide that really shows the diversification of our funding model, right? So it's actually pretty impressive, I think. And if you go and you look at the -- really, the revolving of the security -- revolving securitization, I mean, we've been doing that as far back as kind of the early 2000s. And today, if I look at our commercial business, I've got 2 multi-bank facilities here in the U.S., which total $3.5 billion and then 1 in Europe, which is EUR 750 million.

So as this kind of portfolio of funding evolved, right, in 2014, we started doing term securitization. So these are 144A amortizing notes. They typically have 6 classes of notes offered for each deal.

All classes are investment grade. Top 3 classes are AAA-rated and they represent about 90% of the bonds on average. The size of the classes are going to vary from deal to deal, really based on the pool concentrations, but the majority -- large majority of the notes are AAA. And the most recent deal we issued this past September, which was our 12th deal, continue to see very attractive funding levels, which I talked about earlier.

From a procedural standpoint, look, the typical practices that we're going to originate the leases and loans and we're going to place them in our revolving securitization conduits and wait for that asset size to hit scale, right? And when it hits critical scale, we're then going to turn that out to the market using term securitization. So we've been running about 2 deals per year on average, right? And as that business continues to -- DFS continues to grow. Practice works great for us. I think that it gives us incredibly efficient cost of funds. It gives us flexibility from a funding perspective and diversification in our liquidity sources. So good funding process.

Amit Daryanani

Got it. Perfect. And I guess maybe if I move on to some of the loss rate discussion we had initially, Colin, or at least in your prepared comments. You sort of touched on the dynamic versus '08, '09 rather well earlier. But maybe you could just touch on what makes DFS' balance sheet more attractive than other financial services firms at this point?
Colin Keaney

Yes. I think there's a number of things there. As I said, the quality, I'll go back to the quality that we have in terms of the investment-grade profile of our assets, and it's not just, I think, Amit, saying it's the investment-grade profile of those assets. If you look, and that's why I showed the delinquency numbers, we have really kind of seen how that has, in the midst of a global pandemic, we have -- we are asked, if not better than pre-COVID levels, in terms of our 90-plus kind of delinquency. And that's a real leading indicator. I mean, I think if there was weakness in the book, I think that would be -- that would just show itself.

So I think that really is testament to the quality of the assets. I think that's intertwined with Tyler touched on, the demand for our assets as we look to fund our portfolio as well, it comes back to the essential use nature that we have in the assets that we finance.

And also, an approach that we take with our customers and had a very collaborative approach and working with kind of customers knowing their needs, et cetera. So I think it's a combination of all of those. But I think the proof is in the pudding, as you look at that, you look at overall, the losses. You look at delinquency. From any lens, I think it's an extremely strong balance sheet.

And in the midst of it, it's not like we are flatlined from a growth point of view. We have doubled the size of our portfolio over the last 3 to 4 years. And at the same time, we've changed. The quality has improved. The performance has been good. So I think it's a really strong story that the market likes.

Amit Daryanani

And I guess, Colin, maybe I could just dig into this a little bit more. You guys have all talked about 7:1 debt-to-equity ratio and how it's -- you've been very comfortable with it. I think someone like IBM, for example, I think, runs at somewhat higher at 9:1. Is there an appetite or is there a potential to scale this number higher as you go forward, given the fact that there's so much demand for DFS debt?

Colin Keaney

I'll probably let Tyler maybe has the better position to comment on that.

Tyler Johnson

Yes. I mean, look, I mean, I'll just say, I mean, don't think that, that hasn't gone unnoticed, looking at how IBM run their 9:1. Look, I think 7:1 for us makes sense. I mean, obviously, if I could run it higher, then I would be able to kind of allocate more of my corporate debt over to the DFS and reduce core debt that way.

But the reality is, even though I would argue it's a little bit conservative, I think it makes sense. And like I said earlier, I think the fact that, that's where S&P and Moody's see it as well just kind of adds some credibility to that number, which makes sense.
Amit Daryanani

No. Fair enough. And I guess maybe just going back to the interest rate dynamic and just kind of focus on that a little bit. I guess, Colin, from your perspective, how do changes in interest rate impact the DFS business? And do you see a larger shift to sales funded by DFS when rates go lower versus higher, I guess?

Colin Keaney

Yes. I think, Amit, traditional logic would say that in the past, there has been kind of a correlation, and it often depends on the individual customer circumstances. I would say probably historically, dealing with customers who are cash-rich and have -- had an abundance of liquidity in a low interest rate environment, we would always say, to a certain degree, you compete against cash because the opportunity cost is very low. And then obviously, a customer who has more -- maybe is cash constrained or has kind of greater needs there, then there's a greater opportunity particularly when rates are low.

However, I would say that our kind of experience, when you look at kind of the growth that we've had over the last number of years, while interest rates are a factor, I won't say they're kind of a dominant factor. I think customers are looking for more. I think they're looking for flexibility, they're looking for products that give them flexibility, technology, location and what they can do with -- sure. Whether it's a data center or whatever the case may be, they want flexibility. They want flexibility in terms of how do they acquire and how do they consume and pay for it. Probably not so evident in the current marketplace that we're in at the moment with the level of uncertainty and it's not always natural like your business is going up into the right -- factors outside of your control, particularly if you're in something like hospitality can change that. So flexibility is important.

And then there's other, I think, clear emerging kind of trends as well that customers are looking at, which is around things like sustainability. We absolutely see that when customer asks for they want to know if they're dealing with Dell Technologies. What is going to happen with that particular asset or group of assets at the end of a 3- or 4-year financing arrangement? What do we do with that?

To the point of it will -- it has a large weighting on certain [RFPs] that we're seeing, particularly like Scandinavian countries who are often at the forefront of this. That is very -- that's predominant. So I'm not going to say that low interest rates or interest rates are not relevant. I think they are a factor. But I think there's a lot of things that are important in terms of that relationship with customer in terms of consuming flexibility and evolving things now around sustainability and at the global climate issues.

Amit Daryanani

No. That is extremely clear. And I also imagine rates going from low to lower has less of an impact from really high to really lower sales given the factor over there as well.

I guess, Bill, I'm hoping you could spend a little bit of time on just helping us understand the dynamic of the relationship between DFS and VMware. It would be really helpful, I think, to get some color in terms of the strategic importance of DFS as it relates to VMware. And I guess, at least my impression is customers can choose DFS to fund VMware software ELAs broadly. Can you just explain how this works? And again, what's the importance of DFS as it relates to VMware going forward?

Bill Wavro

Yes. No. Thanks, Amit. Look, VMware has been a tremendous partner since the transaction. And as a matter of fact, we've grown our VMware financing from virtually nothing 4 years ago to over $1.4 billion last year. So
obviously, at that size, you can see we're a very significant partner with VMware. I mean, DFS is VMware's preferred financing partner. We have a dedicated sales force in all the geographies which we operate that's dedicated to VMware. So we're working hand-in-hand with them like the rest of Dell Technologies to offer financing to VMware customers. And it's not only the ELAs but it can be other VMware products as well, maintenance agreements.

We can -- we work with VMware across their product lineup. We work with them in all geographies, and we work with them whether they are selling through the channel or whether they're selling direct. So they're very much treated as similar with the rest of Dell Technologies, but with a separate dedicated team.

The other thing that's interesting, software is becoming an increasingly important part of customers' technology environments. And VMware is a leader in virtualization. It's kind of a best-in-class product and so customers are very interested in it. And I think I mentioned earlier, customers are also interested in out of a turn software, hardware, services, maintenance, put it all together into one solution and pay for that solution as they use the technology. And that's a unique value that we add within DFS because as you know, Dell Technologies has kind of the biggest, broadest portfolio of technology products. We're able to bring all those products together, couple them with VMware, if needed and produce 1 payment solution for our customer. And we think we're one of the few companies that can really do something like that.

The other thing that I'd point out is a lot of traditional financial institutions are more uncomfortable with software financing. They don't quite understand it or they can't put their hands around it. It's not a physical asset. Whereas we not only know VMware, but we know how each one of our customers is using that VMware technology.

And so Colin talked about that a little bit, that critical use asset nature, well, it's the same for software, right? That's running our customers' infrastructures and it's very vitally important to them. So our ability to come in and understand how they're using that and to create a payment solution that matches with that has proven to be very successful over the last 4 years. And I think that's why you're seeing the significant growth from, again, virtually nothing to $1.4 billion.

Amit Daryanani

Perfect. And I guess, Bill, maybe not related to VMware but on a comparable dynamic, when I think about the channel and sort of the other venues of go-to-market, I guess, any thoughts from your perspective on where the reseller channel plays into the broader DFS strategy? And for your channel partners, is DFS another option where they can refer customers to? Or does it compete with their own financing businesses or other opportunities that they can have?

Bill Wavro

Yes. So great question, Amit. I mean, certainly, some of our channel partners have financing options, particularly the larger one, but the vast majority don't. And approximately 40% of our originations go through the channel, so we actually partner very heavily with the channel. We found in our channel business, just in the first half of this year, the amount of financing originations we had through the channel grew 22% year-over-year. So again, it's a big growing part of our business. We have tight partnerships. We deal with channel partners around the world. In fact, we have over, I think, $3 billion of originations in the channel business last year. So it's a big piece of our business.

And what we found is it's not a one-way street, I mean, the channel benefits from working with us. Some work we've done shows that channel partners that utilize Dell Financial Services grow 2x as fast as those who don't.
And one of the unique things that we offer to channel partners is that we can finance not only Dell Technologies product and solutions, but we can finance their own product and solutions or even third-party equipment if that's part of the overall solution.

So customers of channel partners don't want to have 2 separate transactions, one with DFS and one with another financing arm or the channel partner, they want one. They want one payment solution back to this idea of bundling and we can do that. And we spend a lot of time working with those channel partners to make that happen. And like VMware, we also have dedicated sales force for those channel partners.

So all of our products, all of our payment solutions are available through the channel as well as direct. So we don't distinguish between where we can only do this transaction if you buy it direct from Dell. It's available to all our channel partners.

So it's been a really great relationship. And in fact, if you go back 5 or 6 years ago, we weren't as big in that space. And we made a conscious effort to say, look, this is a great growth opportunity for Dell Technologies but also for DFS, and the partnership has gotten stronger and stronger over time. So really important part of our business and one that we expect to continue to grow over time.

Amit Daryanani

I guess, somewhat related to this dynamic, I think you guys had a Payment Flexibility Program, PFP, which I think you guys announced about a $9 billion commitment for that, essentially giving customers, I think, 0% financing for 6 months. I'm curious, what is the adoption of that bid? How many customers are really taking you up on that offer? And is this something that's a dynamic that helps to go off in new logo wins or is it more about penetrating the existing customers more effectively?

Colin Keaney

Yes. I'll take that, Amit. And I think from the outset of the pandemic, I mean, we took a clear view at DFS that we were -- we wanted to make sure we were there with our customers that more than ever, they needed our products, our technology and the whole dynamic from maybe for organizations who didn't have work-from-home capabilities that were extensive, it's needed, et cetera, they needed to react quickly, conserve liquidity, et cetera. So we made that kind of decision that technology, the products that Dell Tech offers and DFS helping that was really to be at the forefront and launched the Payment Flexibility Program back in the April time frame.

And we did, I think, as you mentioned, we made $9 billion available to that program. And there's a number of different arms to that, I would say. We introduced a 0% interest rate on our server, storage and networking solutions. So really kind of customers could acquire that technology and there was really kind of no interest element, as I said, it was 0%. We also then supplemented that with 180-day payment deferrals on that storage, server and networking solutions, but we also included our client business in there, so desktops, laptops, et cetera, a 180-day payment deferral, which I think was really kind of useful for our customers.

We also then as well looked at different terms, terms that maybe historically, particularly in the shorter end of the cycle, offering customers 6- and 12-month financing terms, whether that was on more kind of regular traditional leasing or on our Flex On Demand product. And that was really important because at some stages of some customers, they were scrambling. They didn't know exactly their needs and maybe just were not in a position to commit to a financing solution that was 2, 3 or 4 years' time. So we were able to offer them 6- or 12-month solutions to meet their immediate needs but give them flexibility as to what their long -- so they can decide what their long-term needs are.

And so far, the program, I mean, in the kind of the 4 months up until the end of the last fiscal quarter, we've originated a new business, over $325 million under the Payment Flexibility Program and with really a very healthy
pipeline going into the second half. There was another slide kind of point to your question as well, where you kind of mentioned about kind of new customers. Absolutely, we have seen new customers come and approach us because they're in a position -- the customers may even have good, strong liquidity, but they want to preserve that. They want to have flexibility as well because there is uncertainty maybe and more so in certain industries than others. So we've absolutely seen then come and avail of our Payment Flexibility Program as well.

Bill Wavro

Yes. And I'd just add to Colin's comments. I mean, look, these are -- he outlined it a little bit, the program, and we have really good promotional offerings. I mean, I think everyone understands 0%. I mean, that's pretty clear. And it's -- and we've seen a lot of customer interest in this. And just put out my advertising, it's still available.

So anybody's looking for technology, we still have this program out there and give us a call. But I think it's been a really tremendous success and evidence of how we like to partner with our customers to help them acquire the technology that they need.

Amit Daryanani

Perfect. And I guess, Bill, one more for you. A lot of your peers have made headlines, I think, recently highlighting their different consumption-based models, if you may, for infrastructure products, really. I'm curious, how does that compare to DFS? And do you view your SCM strategy as something that's dilutive to revenues? And how big can this get for you as we go forward?

Bill Wavro

Yes. Well, another great question. I mean, look, we think our flexible consumption and as-a-service products are industry-leading. So we're very confident that we offer customers choice and flexibility and that our programs are designed with their needs in mind. And so it is one important point, and we've mentioned this kind of choice and flexibility several times because we want to give customers the financial payment solution that makes the most sense for them.

In many cases, it's flexible consumption. In some cases, it's not. But we believe we have the biggest and broadest portfolio of offerings out there. And as you know, Dell Technologies has a lot of different products, services and solutions that some of our competitors don't have. So our payment solutions are meant to address all those products, including VMware, as we just talked about. But we believe very strongly that it's a great offering.

I think in terms of, can it move current period revenue? How does that work? I mean, look, when we look at these offerings and you sign a flexible consumption arrangement, I mean, you're typically paying for that technology over time and you're using it over time. So it can differ in terms of rev rec from an outright sale where the customer purchases all that technology upfront and pays cash. But what we found is that these solutions tend to be richer. It's a richer mix of hardware, software and solutions so we think that's great business for Dell Technologies. And it's also recurrent, right? So it's not just in year 1 that you have that contract with a customer. It goes over multiple years.

So we believe in terms of what's good for the customer and what's good for us, I mean, that is a great solution. And we think it has a good outcome for both parties. So we continue to want to offer that and encourage customers where that makes sense to use flexible consumption and as-a-service type models. In terms of how it will grow, I talked earlier about Gartner's prediction in 2022, it would be 15% of on-prem deployments. I mean, we don't know for sure, right? So we're going to continue to watch that space. But we want to make sure that we have all the offerings available so as it does grow, we're there, right, and also to acquire new logos as well as
service our existing customers. And we're going to be talking more about our flexible consumption solutions and as-a-service solutions at Dell Tech World. So stay tuned for that later this month.

Amit Daryanani

Perfect. I think we're almost up to the hour so I will pause here, but I'll turn it back to the 3 of you, Tyler, Colin, Bill, if there's any closing remarks you have or anything that we didn't touch on that you think investors, clients should be aware about DFS, please let us know, but I'll turn the mic back to you, guys.

Bill Wavro

Yes. Well, look, Amit, I just want to say first and foremost, thank you very much for hosting this. We appreciate the opportunity to get this information out to the investor community. I hope we provided a better understanding of what Dell Financial Services does and how it impacts the overall Dell Technologies' P&L and business. And so thanks again, and appreciate the time with you.

Colin Keaney

Yes. Thank you very much. Appreciate it.

Tyler Johnson

Thank you.

Amit Daryanani

Great. Thanks a lot, everyone. This will end the presentation. Thanks for your time.