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PRESENTATION

Timothy Patrick Long, Barclays Bank PLC, Research Division - MD and Senior Technology Hardware & Networking Analyst

Hello, everybody. Thank you for joining. Tim Long here at Barclays hosting a fireside chat with Dell. We have Dennis Hoffman, SVP, Corporate Strategy and SVP and GM of the Telecom Systems Business, also a pretty long title. Thank you for joining us.

First, on behalf of Dell, I'm going to read some statements for them. The discussion may refer to non-GAAP results, including earnings per share, unless otherwise indicated. For a reconciliation to the most directly comparable GAAP measures, please see the slides labeled supplemental non-GAAP measures in the performance review available on the fiscal 2021 Q3 results page on investors.delltechnologies.com.

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QUESTIONS AND ANSWERS

Analyst: Timothy Patrick Long, Barclays Bank PLC, Research Division - MD and Senior Technology Hardware & Networking Analyst

Question – Timothy Patrick Long: Okay. Thank you again, and Dennis, welcome. Love to spend some time with you here. Maybe if we could just start overall, just kind of a high-level refresher on the current strategy. Dell, as most people on the call know, has a lot of pieces to it, a lot of different businesses. So maybe just give us your view of kind of strategy and how you've had to pivot that strategy a little bit because of the pandemic?

Answer – Dennis Hoffman: Yes, I'd be happy to. Thanks, Tim. Our strategy is really remarkably unchanged since we formed Dell Technologies in many ways, and recent events, the pandemic has done very little to change that. It's, in fact, in many ways, accelerated it. We set out when we put the company together to do really 2 things.

One was ride this digital transformation wave, helping our customers move along this maturity curve from what we would consider a digital maturity laggard to a leader because it's just been proven that as people move through the curve, they frankly spend more on IT, they invest more in technology as a means for competitive advantage. So it is simply in our strategic best interest to help people along the journey.

But the other thing we really set out to do was, I think, less kind of public-facing or customer-facing for sure. And that is we believe there's, certainly, in many categories in IT, a consolidation happening. And so winning in that consolidation has been a big driver of our moves.

And the pandemic has, as I said earlier, really done nothing but create a bit of a flight to quality that's helped on the consolidation side and driven people to -- or corporations around the world, frankly, independent of size or vertical market, to get a lot more serious about transforming digitally, about dealing with customers and processes remotely, about automating, about finding more insights in their data, and that's all been very beneficial to our business. So whether lucky or good, net-net, the strategy hasn't really had to pivot at all.

Question – Timothy Patrick Long: Okay. Great, great. Maybe along the kind of the higher-level strategy side. Obviously, VMware is an important asset, and there could be an event in the future where there is some level of separation. So maybe can you talk a little bit about how we should view Dell in a world where this important asset is

separate? Maybe discuss how you think the 2 entities would still interact and the impact that would have on some of the more hardware-based businesses?

Answer – Dennis Hoffman: Sure. It's -- I don't -- again, I hate to -- I'm going to sound a little bit of a broken record. If the spin were to happen, I don't think it's going to change anything. And I say that not because it's kind of an easy catchphrase, but because the way we work together today, the way we've worked together for the last 4 years -- and I came to Dell Technologies via EMC. So the way we've worked on the EMC side with VMware since 2004 has always been as largely an independent but closely related strategic partner, whether that's on the technology side or the go-to-market side. Both of those areas have dramatically accelerated in the last 4 years as part of Dell Technologies.

I think philosophically, we've just -- Michael approaches this, the organization somewhat differently than we did as part of EMC. And clearly, the notion of -- for Dell, working with VMware first and being a best technology partner in the VMware ecosystem has been and will continue to be an objective.

So in a potential post VMware world, the way we go to market together, the -- all of the investments we've made in joint product development, engineering, the way we've decided to parse services between the 2 organizations, is really all set up to mean that very, very little will change. So going forward, we're going to keep pursuing the things that are top priorities for Dell tech right now, the -- as a service in everything that we do, the telco 5G opportunity, the emerging edge, data management, AI, machine learning, and of course, intrinsic security.

And so I really -- I don't mean to give you kind of a disinteresting answer, but it is our firm belief that if we were to actually consummate a spin, very little is going to change afterward as versus what we have today.

Question – Timothy Patrick Long: Okay. Great, great. Yes, I do want to dig into some of those priorities that you mentioned. Maybe we'll start with the third one. You talked about the edge, the emerging edge. Curious of your views on kind of edge compute and how you see Dell playing in there. Some of your peers are certainly starting to talk more about this business. I know you guys did recently have a deal with a data center company in FedEx to do more at the edge. So curious how you see that evolving and Dell's role in that transformation.

Answer – Dennis Hoffman: It's -- the edge is a very, very important area for us strategically. I think the easiest way to describe it is our philosophy, our belief -- and it's been borne out, I think, in the way the industry has developed is that in the end, it's all about workloads. And workloads are kind of like water. They seek ground. They try to find the best place to run. And that really take -- that's really a decision that's made on 4 criteria: performance, economics, trust and data gravity. So based on where is the best place to run from a performance perspective, where do I trust it to run, where is all the data getting created and what are the best economics. That's what's been driving everything.

There was -- 20 years ago, the only place to run a workload was a private data center. Over the last 10 years, there's been 2 choices: private data center or public data center. In many ways, the edge is everything else. If it's not in a private data center and it's not in a public data center, one simple way to think about it is edge becomes the third leg of the workload stool. It's a place where work is going to run, and it can't run with -- workloads don't run on software. Workloads run on hardware. Workloads need to be computed, workloads need to be -- their data needs to be stored. So we see it as an enormous opportunity.

Frankly, if you think about the computer industry over time, we've just seen an ever accelerating swing of the pendulum between centralized computing models and decentralized computing models. We've gone from the mainframe to the client server Internet, then even quicker to the public cloud era. And we can all debate when the edge computing era has begun, will begin.

But in every case, the distributed computing era has been pretty dramatically larger than the centralized computing era. And so the opportunity for Dell Technologies to deliver and be part of an emerging horizontal edge infrastructure platform is frankly gigantic. It's a TAM expander for our entire Infrastructure Solutions Group and a strategic piece of real estate we think we need to go win our fair share of.

Question – Timothy Patrick Long: Okay. Great. Yes. Excellent. We tend to agree on that, opportunities in that market. Maybe one of the others you talked about was the as-a-service model because it is something that the industry is pushing towards, and I know it's a priority. So maybe talk to us how you see that evolving across the different pockets of the Dell business.

Answer – Dennis Hoffman: Well, we -- there's various forms of as-a-service. We have a number of those today as consumption options for our products and services. But we made the decision recently that we needed to pull it all under an umbrella program and drive it very holistically and aggressively across the company from the top down. We will prioritize it literally through everything that we do, starting with the storage product family, followed very quickly by the entire compute product family. And as I said, it's not so much a brand-new thing for us as an augmentation of some of the stuff that we've been doing.

But the strategic driver behind it is pretty simple. As I mentioned earlier on, our strategy was kind of twofold: help our customers transform digitally and win in the IT consolidation. Well, you can't win in the IT consolidation if you don't

play in 15% of the market or else you're going to have to have an incredibly high share of the remainder.

And so we think that a fair chunk of infrastructure to anywhere between 15% and 30% will be acquired as a service, whether that's on-premises or off-premises in a public data center or even on the edge, we cannot fail to address that kind of a chunk of the market and achieve our strategy of driving the consolidation.

So there's a customer driver for sure. Some people like the OpEx option. They know they spend more, but they like that benefit. And fundamentally, it's strategic for us. It's a way for us to achieve the strategy of consolidating the markets we play in.

Question – Timothy Patrick Long: Okay. Great, great. And I think the third priority that you mentioned there was telco and 5G. I'd say Dell is probably a little bit underappreciated in the telecom value chain. So maybe just give us kind of an overview of where you're playing and what you see. As these networks get more data-centric, I'm sure it's going to pull in a lot more parts of Dell than have been involved in these networks previously.

Answer – Dennis Hoffman: Yes. You're very kind to call us underappreciated. It's -- the reality is the telecommunications industry hasn't been a focus. It's -- of all the vertical markets we serve, it's somewhere in the middle of the pack in terms of bookings. Those are almost exclusively sold into IT, where, in many ways, the network operators don't look any different than a bank. So we've kind of not participated much in the network side of telecommunications, which is where all of the capital is spent.

But as you point out, going forward, the digital transformation trend I started with is really starting to hit the telecom industry for a whole bunch of reasons. The 5G inflection, all the geopolitics around the Huawei rip and replace and -- but I think most fundamentally, it's becoming clear to network operators that most of their network functions can run in a virtualized software-defined environment. And that environment is way lower cost, way more flexible. It's a basis from which they can become cloud operators, which is almost mandatory to not get over the top again.

The last 10 years for those that -- I know you understand the telco industry, but for those that follow it, large chunks of the telecommunications industry profit pool have gone to non-network operators. They've gone to web technology companies and people that run over the top of the network. That's been largely a consumer story, but 5G promises business service opportunities. And the network operators are very keen to capitalize on those. They need a different architecture from which to do that.

So it's funny, but in many ways, the telecom industry, because of digital transformation, is becoming addressable with our company like Dell Technologies doing a whole lot differently, not -- mark my words, we got to do a fair bit differently. But it's literally one of the last bastion of massive capital spending to embrace software-defined industry standard. And as it does, by our estimates, some \$100 billion of TAM open up over the decade.

And it's something that, back to those 2 strategies, to help our customers transform digitally and win in the consolidation, both drive us to want to play much more aggressively in the telecommunications space as strategic partners to the network operators, and in particular, help with this network disaggregation, opening up the radio access network and driving a new service edge, which gets back to your earlier question about edge, right? It's kind of hard to figure out how do you "win edge" as a player like Dell Tech without a pretty substantial footprint in telecom because the telecommunications companies are going to represent, for much of the world's businesses, a big chunk of their edge.

Question – Timothy Patrick Long: Great, great. I wanted to touch on another topic. We did discuss kind of the as-a-service move and which kind of plays into software a little bit. But curious if there's other -- a broader software strategy and also comment on security, which is an element of your products. But some of the peer group has kind of stand-alone type security offering. So how does security play into the future?

Answer – Dennis Hoffman: Yes. As we did, right, we have a stand-alone security division largely represented by RSA. I would think the -- our belief -- I would like to say the reality, but that would be for all of you to judge. But our belief is that security transformation, which has been called for, for a long, long, long time, is fundamentally about building security in, not bolting it on.

If you bolt security onto an architecture and infrastructure of a product or a process as an afterthought, you do 2 things that are bad. You increase the attack surface, and you create another element of the product, network architecture, storage device, what have you, that has to be managed. And that further creates issues.

So we're big proponents of intrinsic security. It's got to be built in. And against that backdrop, the question is, is it core to have a security product? And our conclusion was it wasn't. It's important to build products securely. It's important that our products are, in fact, fundamentally secure. They have security features and capabilities. It's even more important in some ways that our products enable security use cases. Data at rest encryption as a feature of a storage array enables a security posture. Network micro segmentation through something like VMware NSX is literally SD-WAN or software-defined networking, rather, enabling a security use case.

And that's the approach we've taken. We've got to build security in at multiple levels in order to enable fundamental and intrinsic security, having in the case of when we owned RSA and authentication capability, it is a very interesting, important security product, but it's a separate product. And the security industry today is literally 1,500 start-ups, which are in large part features masquerading as products or companies.

And so there's this is never-ending churn of buying these things and bolting them on and the industry is starting to say, "Well, stop. I -- this can't keep going." So for us, our strategy of helping customers transform digitally while winning in the consolidation, effectively becoming the essential technology company for IT, meant intrinsic security, not a separate security division and hence, we divested it.

Question – Timothy Patrick Long: Okay. Great. That makes sense. Maybe just shifting over to the PC side. Obviously, the world got turned upside down, but it really benefited this business. So what are you thinking on the PC side? Does anything change here? Do you think this is a more -- a long type of tail to this business? Or how do you plan around this pretty challenging?

Answer – Dennis Hoffman: Yes, it is. I mean -- and so one of the ways we plan is by taking our time to try to analyze the situation and -- which we're doing right now in terms of -- before setting our next year's plan. A couple of observations. To your point, the pandemic proved many things from -- most companies probably don't need to travel as much as they do. To -- the PC is far from dead. It's clearly the employee edge. It's become the distance learning edge. It's the telemedicine edge.

And so there's been a structural shift in the PC market. We don't think it's a pull forward and a fall back. We have the luxury of working with companies on a lot of different dimensions. One of those is because of our data protection business. We spend a lot of time on business continuity planning.

Most companies' business continuity plans were written to assume that a high watermark of some 30% of their employees would have to be remote because most BCP or business continuity plans were largely written around act of God, right? They were anticipating earthquakes and fires and floods. They weren't planned for global pandemics. Almost all of the companies we work with are in the process of completely reconstructing their business continuity plans on this front to assume 70% to 90% of their employees. They've got to be capable in an emergency of that kind of work from home.

Certainly, schools are learning something similar at every grade level up through postsecondary education. And so we see an elevated level of client solutions demand on multiple fronts. For us, it takes the form of highly elevated laptop sales. It also takes the form of highly elevated peripheral sales, monitors, software and all the stuff that goes with it as people kind of get set up for best at home.

And in many cases, in multiple ways, I'm right now dealing -- I got 3 -- I have 3 children at home, one's in college, 2 in high school. Everybody's got a machine. Nobody is trying to do this on a tablet or a phone, and in some cases, multiple machines.

So we think we're going to see a structurally elevated level of demand in this market going forward, and we'll see that both commercially for sure but also on the consumer and education front. And so we're planning for it. The entire industry has, it has been for a while now, trying to chase down enough parts to surface -- or service demand. And we're confident that our standing in the industry, the quality and capability of our supply chain puts us in a pretty good position there.

Question – Timothy Patrick Long: Okay, great. We have time for one more. It's probably a very long answer, but I'll ask you to do it in a few minutes if you can. Just curious in looking at ISG and kind of the cloud impact on those businesses. Talk a little bit about the strategy. Obviously, some portions of the cloud are going to be -- use white box equipment and could be quite negative to you, but then there's other parts where there's real opportunity. So let's -- maybe if you can just touch on that for a few minutes.

Answer – Dennis Hoffman: Sure. I'll try to do it real quick because I can, I think, leverage a few of the earlier comments. In the end, it begins with workloads, and we have to -- we all have to have an opinion about where the workloads are ultimately going to settle. We've had an opinion for a long time that the vast majority of workload will remain in private data centers and that cloud is a way of operating, not a place.

So to your point, the workloads that belong in a public cloud that have gone to a public cloud, that has not been net beneficial for us in most of our businesses. And yet, what we're seeing right now is the workloads that belong in public cloud are there. In fact, there's some that really don't belong in public cloud from a performance economics, trust or data gravity perspective that are in the process of repatriating over time.

This year has been funky because as we all left the workplace, so too did IT people. And in many cases, companies made the decision that they were going to burst capacity into places they didn't have to send their own employees to work, and the public cloud certainly got a kicker out of the pandemic.

But to your earlier question and some of the work I know your team has done on the emergence of the edge, for our ISG business, you look at those 3 legs of the stool I mentioned, private data centers, public data centers and everything else. Well, that everything else, if it's largely described by the emerging edge, is a massive TAM expander for that organization. And for that part of our company, "winning the edge" is an absolutely essential strategy.

Now it pits us, to some extent, against hyperscalers who feel they have to win the edge too. And they have to win the edge because they are basically working on a whole bunch of things to -- sorry about the dog. They're working on a whole bunch of things in order to extend their business models to the edge.

So a really interesting thing to watch for everybody over the next couple of years is the way that people like Dell Technologies approach creating an edge and what that means for our ISG business, which is, I think, enormous as well as the way that the public cloud vendors have to try to connect to the edge to help support what they've built, which is a very centralized business. It's -- we're lucky back to -- the product portfolio has been very successful and helpful at these times.

We're moving into an era where very annoying things, mundane details like spares depots, the ability to deliver 4-hour support almost anywhere on earth, is going to start to matter again because the edge is everywhere. The idea of give me your data and give me your work into a large at-scale data center and I'll handle everything works for some workloads. But this emerging set of edge workloads is completely different. We believe our company is very well set up to attack it, and ISG is kind of the tip of that spear for us.

Question – Timothy Patrick Long: Great, great. Okay, Dennis. Thank you very much for the time, really, really helpful information here for everybody. Thank you, everyone else, for joining. Have a great rest of the day. And everybody, stay safe.

Answer – Dennis Hoffman: Thanks, Tim.

Question – Timothy Patrick Long: Okay. Thanks, Dennis.