

TRANSCRIPT

DELL – Michael Dell Investor Call – Bank of America “View from the Top” CEO Series

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PRESENTATION

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Well, hello and good morning to you all. Welcome to our View from the Top CEO Call Series.

I'm honored to welcome back Founder, Chairman, and CEO of Dell Technologies, Michael Dell, on this View from the Top Series call. Michael's joining us again for the third time, so we're especially privileged to have him on this call. Before we get started, I do need to mention that conflict disclosures as related to the individual companies and securities discussed on the call today can be found on the call invitation.

Additionally, this presentation contains forward-looking statements based on Dell Technologies' current expectations. These statements involve risk and uncertainties that could cause actual results to differ materially. Factors that could cause results to differ are discussed in Dell Technologies' periodic reports on Forms 10-K or 10-Q filed with the SEC. Any forward-looking statements made today are based on assumptions as of today, and Dell Technologies undertakes no obligation to update them.

We have a lot of ground to cover over here today. We're going to talk through, hopefully, a broad breadth of topics, including AI, memory, PCs, cap allocation, lots of exciting stuff to cover over here with Michael.

So as you all know, and Michael really needs no introduction, but Michael really started and founded Dell Technologies with \$1,000 in 1984 at the age of 19. He became the youngest CEO ever to earn a ranking on Fortune 500. He's navigated many cycles, lots of portfolio changes, including the acquisition of EMC, the go-private transaction back in 2013, spinning out VMware in 2021, Perle Systems, buying and selling somewhere in there, and now re-architecting the company for the age of AI.

And beyond sort of the success in business, Michael, alongside his wife, Susan, founded the Michael & Susan Dell Foundation in '99 based on really expanding opportunity through initiatives spanning education, health, and family economic stability. And most recently, I'm sure you've all seen, the foundation announced a \$6.25 billion, that's with a B, philanthropic commitment to help seed investment accounts for 25 million US children. And that was incredibly generous, Michael, and we hope many others will follow your lead here to lead this next generation to success. That's just really incredible.

So we're really fortunate to have you here. Welcome, Michael. We really appreciate you taking the time to be with us here today.

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Well, thank you, Wamsi. Great to be with you. And thank you for the kind introduction. Happy to discuss all this.

QUESTIONS AND ANSWERS

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Well, thank you so much, Michael. So to get started, you have reinvented Dell from PCs and peripherals to server storage, networking, and now AI. And you seem pretty all in on AI, now with revenues going to a third of the company in just three years. So how do you see AI changing the tech landscape, and what do you see as Dell's opportunity here?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Yeah. I think you have to step back and understand that we're shifting from calculating and computing to thinking and intelligence, which is just a fundamental change. And the value of that and the opportunity for that is enormous.

And certainly, if you look at our AI server business, it went from \$2 billion to \$10 billion to \$25 billion, we're expecting \$50 billion this year. We're still in the steep part of the S-curve adoption of the technology. We have 4,000-plus customers using these AI factories. And look I think if you think about sort of this thinking intelligence platform, you've got \$114 trillion economy. If you get a little bit of productivity improvement with AI tools, it's worth an enormous amount.

And so while there's a ton of investing going on here, it's at least possible that the world is underinvesting in this, given its potential. And it turns out that you need a lot of what Dell Technologies has built over 42 years in terms of infrastructure, capability, server storage, networking, and the support and services and supply chain, et cetera, to be able to deliver that.

And I think maybe 10% of customers, maybe 15%, sort of understand what this can do, and the rest of them are still figuring it out. It takes time for all this to kind of happen in the real world. I also think there are distinct phases of it. There's kind of the tools phase, which is what most people are doing. They're adding a tool here and there, and it helps people do their job and be more productive. That's great.

There's a whole another phase of this, which is really reimagining the workflows in companies. And this is very, very different than tools. It involves really rethinking how you get to a given outcome. And in many cases, this is just a big change inside companies.

Again, doesn't happen quickly, not easily, but you sort of go from a 10% or 20% or 30% improvement with tools to a 10 or 20 or 30x improvement. And there's certainly sightings of hundreds of x improvement in various processes and outcomes where you're just doing it very differently with agents and recursive self-improvement and all of that. So super exciting time, and certainly, there's a lot of demand for what we do.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Yeah. No, that's incredible, and so many things to touch on over there. Maybe let's start with sort of the comment you made about potentially underinvesting.

I mean, a lot of investors are worried about hyperscaler CapEx budgets that probably exceeded anyone's forecast from two or three years ago. And these companies have gone from a capital-light to capital-heavy model, which is pressuring their own cash flows at the moment. So how do you see the sustainability of this CapEx cycle? And how do you position Dell if the spending on AI was to either accelerate or decelerate?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Well, it's certainly not decelerating. I can tell you that. We took \$64 billion in orders in the past year. The opportunity and the pipeline keeps growing. And to be clear, we're not putting it on our balance sheet. We're still operating with a capital-light model.

But when I talked to the hyperscalers, each of them view this as an existential issue for their business. And so they're all investing super aggressively. And again, I sort of go back to the size of the services economy and the demand, what I can tell you is that when we deploy this infrastructure, time to first token is incredibly important because they're putting the infrastructure to work immediately and it gets consumed. And so there's just a ton of demand here.

I still think we're in the early stages of the adoption of all this. And we haven't even gotten to agents and the physical AI and recursive self-improvement. And so certainly, there are going to be ups and downs here, but we feel we're well positioned. I mean, we don't actually make any commitments until we have actual orders. And I think we've been pretty careful in managing our capital commitments and demand supply to make sure that we're ultimately converting this into free cash flow, which is what we focus on every day.

Wamsi Mohan - BofA Merrill Lynch Asset Holdings Inc - Analyst

Yeah. No, that's very clear. In some ways, there's this unprecedented CapEx and demand for AI data center buildout. It's just creating a lot of tightness across the supply chain, whether it be from labor to cooling equipment to memory, just to mention a few. So where do you see the biggest bottlenecks? And what are some of the opportunities and risks associated with these from Dell's standpoint?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

So we kind of love it when there's a supply chain challenge because that's kind of like -- it's kind of like the super bowl for us. We're ready for that. So yeah, I mean, you have to understand that while you can easily identify 10 or 20 suppliers that work with Dell, there's actually thousands and thousands of them. And so it's a complex thing.

We have built a supply chain machine and it's built on relationships. Obviously, we took our guidance up a lot. We have the supply for our guidance. We're out looking for more supply. And if you just get back to what's going on here, there is extraordinary demand growth across the industry. And so you've got all sorts of constraints.

One way I would describe the memory issue is -- I would say memory in advanced silicon, it's kind of the 25 times 25. And what do I mean by that? So when NVIDIA came out with the H100, it had 80 gigabytes of high bandwidth memory. The current part has 288 gigabytes. Next year, you'll hear about parts with 1 terabyte. And the year after that, you'll hear about parts with 2 terabytes. So from 80 gig to 2 terabytes is 25 times more memory per accelerator.

And in that timeframe, you'll have about 25 times more accelerators. So 25 times 25 is 625 times. I know most of you are pretty good at math. And it also takes about four years to build a new memory plant, assuming you don't have shells already built. And if you wanted to have memory capacity in 2027, you would have made the investments in 2023.

Now, if we dial back the clock to 2023, you might recall it was a horrible year for semiconductors, particularly memory. Micron, in particular, had negative gross margin percentage. Their sales went in half from 2022 to 2023, and the industry collectively lost \$40 billion. A lot of them still have PTSD from that. And they're like scared little puppies. Some of them almost went bankrupt. And so they're sort of very careful about investing.

And then if you go to the logic side, TSMC didn't increase its CapEx in '23 from '22, didn't increase it in '24. In '25, they started to increase it, but not enough. They're pretty conservative and they're sold out. And so yeah, there's big supply constraints. The good news is that we are not a monoline company. We can sort of move wafers around across multiple product families.

And again, we've had relationships. I mean, Jeff Clarke's relationships and my relationships with these companies go back literally to the 1980s. And it turns out a lot of these companies are quite relationship oriented, particularly some of the Asian ones. So we feel that the environment advances us.

And of course, scale -- I mean, if you look at our scale, our server and storage business is four times larger than any single competitor generally. And we're larger than number two, number three, number four, all combined together. And we've also gotten really good in terms of our reaction time in dealing with the changes in cost. And customers also know that we have a supply chain that works.

Now, nobody likes it when the price goes up, but even worse is if you can't get supply. And so we feel we're well positioned for this kind of environment.

Wamsi Mohan - BofA Merrill Lynch Asset Holdings Inc - Analyst

No, that's great. And yeah, you guys have demonstrated time and time again when there is supply chain disruption, you guys just somehow managed to out-navigate everyone else. And that's just a testament to a very strong supply chain legacy that you've built at the company.

I want to come back to memory, Michael, but staying on AI. Your AI revenues have just grown extremely fast, like from almost nothing to \$50 billion in just a few years. Most of this is Tier 2 CSPs. So when you talk to Boards and CEOs, CFOs, how are they framing the ROI for AI? And when do you see enterprises start to maybe more broadly leverage AI and start to hit an inflection point? And really like maybe roped into that, how does this change the margin and ROIC profile for Dell as you think about those moving pieces?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Well, I would say we're seeing it, Wamsi. I mean, there's substantial uptake in enterprise and it's continuing to grow. Certainly, the margin profiles will be more attractive than the CSPs because they're smaller deals that tends to be more services and storage and networking. And the lowest-cost-token is the one that's generated closest to where the data is.

And enterprises have figured out that it's a hybrid world and these tokens are pretty expensive. And again, we haven't even gotten to the whole agent activity. But inference is definitely taking off. And a lot of the use cases are not super complicated. And a lot of the smaller models or open models work super effectively. And you probably know that the open models are not that far behind, maybe six months behind, depending on who you ask. And so we see robust growth in the enterprise.

And I think companies are going through an understanding here where I would say there's sort of different kinds of companies. There's companies that have said, wow, this stuff is total game changer and we better do this or we're going to have a big problem if our competitors do it and we don't. And then, there's other companies or organizations that say, well, okay, this is our budget and it doesn't really matter what's happening in the outside world, we're sticking with our budget.

I mean, that'll kind of work until it doesn't work. But I think over time, there's going to be fewer of those if you really believe that this is a game changer. And put me down for that. We see it in our own organization. We see it in our own productivity. If you look at our own ROI, if you want to measure free cash flow per person or revenue per person or gross margin per person or however you want to measure it, there's a ton of ROI here. And it's -- we're, I believe, still at the beginning of this.

Also, you need to think about, in the past, each of us processed data and tasks and we had projects and tasks and emails and things, and we sort of do those at human speed and we pass them off to the next person. And organizations and technology that are -- in organizations are a function of what was available at the time they were established. And they get updated from time to time.

So now, fast forward to 2027, we have these agents that are able to process all these tasks and they work way faster than humans. They're way more accurate, they never sleep. And so you can supervise tens or hundreds of those agents and fundamentally change the way work is done. And so there's just a whole rethinking and reimagining going on inside companies, but that will happen at very different speeds.

Not every organization is going to be AI-pilled and just throw out everything and redo their company immediately, kind of like we are, but I think you'll see more and more of that over time. And you'll see a stark contrast in the performance of companies based on the rate and pace that they do this. I mean, we're kind of already seeing that.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Yeah. No, it seems like the deluge of sort of usage of agents is just starting now, and we're starting to explore what these agents could do. And especially after OpenClaw and other recent developments, there's obviously a lot more focus on it. How do you think --?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Yeah, that's right. We've gone from LLMs to reasoning to agents, and now, we have this recursive self-improvement. And if you think it's going to end there, you would be sadly mistaken. It's going to keep going.

And a way to think about it is we have this platform for thinking and intelligence, and you're going to see a significant number of innovations on top of that. And can somebody predict exactly what those are going to be? Not a chance, but hold on, it's going to be exciting.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Yeah. No, that sounds very much like -- I think when we first entered either the cloud era or the internet or cloud or mobile, like each of these, we did not know this whole ecosystems that would form on top of that, which kicked off like many multimillion-dollar businesses. So seems like there is a lot of innovation yet in store and you guys are going to be obviously part of that.

Maybe, Michael, to switch gears a little bit, unfortunately, world is a little bit on a tumultuous place, and with the Middle East turmoil, do you see any sovereign buildouts that are potentially slowing? Or do you think that now with sort of maybe more of each country looking to secure its own infrastructure, there's more of an urgency to become self-reliant and actually the demand is becoming even stronger from a sovereign perspective?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Well, geopolitical tension is sort of the root cause for sovereign AI demand. And so let's suppose there's a scenario where there's tension in the transatlantic partnership. Who knows? Maybe that would be a thing.

Well, all these countries in Europe, they don't want to be reliant on US AI or US anything actually. And so now, we remind them that, well, actually, we can't make these things without ASML and there's all these companies in Japan that make all sorts of gases and chemicals in South Korea and Taiwan and it's not just the US. And so dear customers, we're dependent on the world to make these things. It's not just the US involved, but we have extensive factories in Europe.

And yeah, I think sovereign demand continues to grow some really good partnerships like with Palantir, and customers are looking for the ability to run AI inside their country with their own private data for all sorts of applications. And we've had some great wins there. And think of it as any country in the top 25 of GDP, there's some sovereign thing going on there, whether it's the government themselves or a telco or a separate company that is somehow affiliated or connected back to the government, there's definitely demand for sovereign AI.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Okay. No, that makes a lot of sense. Maybe, Michael, just looking at your AI server business, historically, Dell has had fairly significant negative cash conversion cycle. And you kind of engineered that whole concept across the whole PC industry to start with.

But as you think about AI becoming such a sizable part, almost as large as the PC business, probably going to exceed it very soon here, how do you think about whether or not it's important to have this negative cash conversion cycle across your company? Or does it matter in your long-term calculus on how you manage this business as you think about maybe the different sort of capital requirements associated -- working cap requirements associated with the business?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

It absolutely matters and we're super focused on cash flow. Last quarter, our cash conversion cycle was flat sequentially. And we're taking all the best practices that we have and applying that to the AI business. And we're, as I said, pretty careful. We don't buy material until we have a PO from customers. And there's some CapEx on our part, but it's pretty limited. And we feel very good about our ability to generate strong cash in this environment.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Okay, amazing. Maybe one of the questions we get often asked is just around the competitive differentiation in the AI market. You guys have just really taken this to a new level. I mean, you're sort of beyond anyone, what anyone could have expected. The amount of revenue acceleration that you've shown, your order book, you just had very strong performance. So what is it that's driving that differentiation?

I know, Jeff, sometimes, and you talk about level 11, 12 and deployment in sort of data centers. You just mentioned time-to-first token. It just seems as though you're doing something different. And there is something that stands you apart from a lot of your competitors who are going through several issues of their own, not just execution issues, but other issues beyond that. So as you think about, A, where your differentiation is, and B, what are some of the opportunities given maybe some of the missteps and other issues that are there with other companies, how do you think about that?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Yeah. I would say we keep getting repeat orders from the same customers, and we keep winning over the customers that were earlier reluctant or had decided to go with somebody else. And there could be many reasons for that. I don't think it's like just one thing.

Certainly, we would start with our engineering. I mean, we actually do it, and lots of it. And it's not just in the compute space; obviously, storage is a big element of what we do. And we now have our Lightning File System, our PowerScale and ObjectScale are doing super well. And building the whole system -- building all these systems to be reliable, the networking, then you get into the deployment installation, we learned a long time ago that if you just ship these things to the customer, bad things happen.

So we show up with an army of people and deploy them and install them. And by the way, we get paid for that. And then you have service and support, incredibly important. And these things are deployed all sorts of places around the world, wherever there's power.

We have broad ecosystem of partners, obviously our supply chain, DFS comes into play. And we've been first-to-market now with the GB200, with the GB300. And I think the proof is in our consistent execution and customers coming back for more.

Jeff Clarke and I, at GTC, we had a dinner with a bunch of the neoclouds and CSPs. Maybe all of them, actually, were there. They said it was the first time they were all at the same place at one time. And the demand from those customers is very strong, and they're happy. They're happy with what they're getting.

I spoke with one of the largest ones this morning and orders are -- their business is very strong. And they know they can rely on us. I mean, I mentioned time-to-first token. I mean, we build these things ahead of time. These things are unbelievably complicated.

And we've sort of perfected the precision logistics and supply chain engineering where we can deliver hundreds of these racks in a given week, like clockwork, and have them show up. And within 24 or 36 hours, they're up and running and they're generating money for the customer. So our competitors don't seem to be able to do that reliably.

And I would also tell you that Jensen, at his various performances, he does a great job on stage and things come up and it's like here come all the servers and everything looks fantastic. But it actually doesn't quite work that easily. They have these things called reference designs, and the reference designs, I'll let you know a little secret, they don't actually work. And there's a lot of bugs in them.

And we find all the bugs, and some of the bugs only they can fix and we tell them about those because only they can fix them. And the rest of the bugs that we find that we can fix ourselves without them, we don't tell them about those. And I think that's why we keep winning because we're building a more reliable product at the end of the day.

And that comes down to engineering and discipline inside our whole engineering organization. And I think it's very different from other. And we do what we say we're going to do. We don't overpromise. When we say we're going to deliver it, we deliver it. And it works and it's reliable and you can count on it. And apparently, the other guys, not so much.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Yeah. No, that's a super interesting point, Michael. So when you think about maybe an analogy to industry standard servers where, I think, maybe the level of complexity is definitely lower and the level of differentiation might be lower, so the ODMs actually have meaningful share in sort of the -- at least at the hyperscalers for industry standard servers.

It sounds like the differentiation and the engineering could be so different here with AI servers that maybe the ODMs don't have the same kind of foothold. So the Hanhais and the Quantas of the world perhaps don't actually take as much share of the AI server market potentially. Would that be something that you foresee as likely in the future?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Well, the way I would describe it is slightly differently, Wamsi. What I would say is that, if you're a hyperscaler, you can afford to build a massive engineering organization to go and do some version of the kind of work that we're doing. And those companies do work directly with the ODMs, but I don't think there's a whole lot of companies that can do that. And certainly, it would not include the neoclouds.

You've got also hundreds of these now cloud-native businesses that are consuming enormous numbers of tokens. No enterprise customer's ever going to try to do that. I mean, you're talking about an enormous engineering effort to do that. And we still have some business with the hyperscalers although that's not our main priority.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Yeah. No, that makes sense. From a share perspective, you clearly have been growing very, very fast in AI servers. How do you think about sort of a natural state of share for Dell in AI servers? And there's been some disruption definitely at some of the other larger peers, so to speak, who kind of struggled with various issues beyond execution. In times past, has Dell been able to capture incremental share because of those sorts of worries and not just sort of on a temporary basis but more structurally over time?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Yeah, we've gotten some phone calls recently -- panic phone calls from some customers. I think in the enterprise, we're certainly advantaged there and we just don't see the other competitors as much there.

And I don't really know on the share. I mean, we're often asking the question how high is up in terms of the size of the opportunity because we just keep seeing incredible waves of demand and the lead times keep getting longer and the orders keep coming in. So we're basically seeing some super robust forecast for future demand and responding accordingly. But in core servers and storage, as I said earlier, we are quite a bit larger than others and we seem to be growing.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Yeah. No, for sure. And going back to --

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

And again, I think we're still in the early stages of agents and multi-agent systems and recursive self-improvement that will drive demand even further.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Yeah. No, that makes a lot of sense. Going back maybe to, Michael, your point earlier about sort of the near-death experiences memory companies have and had in like back a few years ago, two years ago, and now looking at sort of where we are with memory price inflation, sounds like not much new capacity is going to come online. I think overnight, Samsung reported some preliminary numbers extremely strong, memory price increases both in DRAM and NAND for Q1, Q2 expected.

So can you maybe -- I think people were very surprised to see your fiscal year guidance because people felt like with this memory price escalation, I mean, there was no way that anyone can navigate that to not have a down year on year for earnings. You had sort of committed to a long-term framework of 15%-plus EPS growth. And frankly, you've driven higher than that now. We're talking about 25% earnings growth in this fiscal year, which is just astounding.

So is it -- maybe you can help explain to investors the secret sauce behind your ability here to overcome this intense margin pressure that the rest of the industry is seeing? And I'm sure you're seeing increased costs as well, but you're somehow able to navigate it much better than others. So what's actually happening behind the covers? What are some of the levers that you are using in maybe across your business lines that is helping more than offset the challenges of memory price increase?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Well, so it shouldn't be super surprising that we're raising prices to protect gross margins and we're very agile in doing that. So we're able to execute that very quickly. And we kind of saw what was happening and we made appropriate changes.

The other thing is, going back to what I said earlier, we're in a good spot in terms of supply. Everyone is subject to the price increases. But again, let's say you're at Bank of America or whatever bank you want to pick or whatever customer, it would be bad if the price of memory went up, but it'd be worse if you couldn't get any. And so we've translated that situation into a successful outcome. I'll say there's probably some trade craft in there that I'm not going to explain, but we're doing very well in this environment.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Michael, you mentioned sort of price increases, and obviously, some of this is pretty visible externally. There's -- industry standards overpricing has gone up 30% to 100% in some SKUs. There's been significant price increases across the board. So when you think about the impact of these price increases on customers, what sort of buying activity are you thinking? How does that change the buying activity of these

customers? Do we anticipate a pull forward of demand, or is the demand so strong and the value proposition of replacing the server is so great that we're going to see continued demand?

Or is it like, given your secret sauce and trade craft, like you're able to take share? So even though there might be a pull forward in the first half, your share gains in the second half will let you do better than the rest of the industry. Can you frame how to think about how the customer demand might be changing and the seasonality of that could be changing because of what's happening with memory prices and your price increases?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Yeah. I am sure there's some pull forward, but we don't know how much. We also know that there are some customers who will say, oh, the price has gone up too fast. I think I'm going to wait for it to come down. And who knows, maybe it will come down. I mean, I'm sure at some point it will, but probably not. Doesn't look like it's happening anytime soon.

So the problem, of course, is you can delay the purchases for a while and there is some demand disruption, certainly in low-end phones and low-end PCs. But there are about a third -- about 500 million of the 1.5 billion PCs in the world are four years old or older. And so if you work at a company with knowledge workers, and now you've got a four-year-old PC, this is a bad situation.

And so you're paying somebody \$100,000 or whatever to do their job and they've got this decrepit tool that doesn't work very well and they know it. And so yeah, maybe you don't like that the price went up, but eventually you're just going to pay the price. I mean, you can delay, you can defer, but -- so yeah, it's almost a question of when are they going to buy not if they're going to buy.

And then with servers, we still have the majority of our installed base of servers are 14G or older. We're on 17G now, so that's a seven-to-one consolidation benefit. And so I think customers are starting to figure out your budget for tokens has to go up. And so this just costs money. I mean, obviously, we've put all this into our guidance, with respect to the second half, but yeah, I mean, I do think these are the kind of environments where we tend to gain share.

And I also think different from the kind of 2020, 2021 cycle, you've also seen us scale our cost structure in some pretty extraordinary ways. So we're kind of fit to fight here for the future.

Wamsi Mohan - BofA Merrill Lynch Asset Holdings Inc - Analyst

Yeah. No, great points. Michael, you mentioned, obviously some of your relationships with these memory companies go back four decades. When you think about what the hyperscalers are doing, they're starting to try to have long-term agreements with a lot of these parts of the supply chain, whether it be components, whether it's memory, whether it be optical. And they're investing aggressively into these companies in some ways. And so you've obviously done a phenomenal job.

You're just saying that, hey, you've got enough supply to take care of your guidance and you're trying to get more supply. So is there -- as you think about your discussions with these suppliers, is that changing in any way because of what these hyperscalers are trying to do, which is just really go in and try to lock up as much supply as possible?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

I mean, what I would say is we have had long-term agreements with a lot of these companies going back decades and we continue to. Obviously, the nature of those adjust given the environment and the demand from the overall industry. Also, I think you have to understand this whole intelligence thinking platform, it just uses memory in a very different way.

And so that's a big change here. It's a lot less expensive to take a token that's already been generated and store it and pull out of memory than to regenerate it. And so you end up with a much faster growing sort of pyramidal system of memory from SRAM inside the logic to high bandwidth memory, to DRAM, to SSDs, to ultimately rotating storage still around.

And so yeah, we have agreements with them. The demand is extraordinary. We have the supply for the demand -- for the guidance that we've provided for the year and working on getting more.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

And generally from your perspective, the flavor of these long-term agreements that you have had is generally where there is a supply guarantee for Dell and then pricing could be some variable nature. Is that the right way to understand sort of most of these longer-term agreements? Or would you characterize that as not right?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Yeah, that's generally right. I mean, I think also, while some of them can be very opportunistic in periods like this, they're also quite concerned with the long-term health of their business and who the off-takers are over time. So what do I mean by that?

These guys are investing tens of billions of dollars in these plants and they want to know how they're going to sell their parts in the next quarter or two, sure. But they really want to know how they're going to sell them in the next 3, 5, 7, 10 years. And we've always been a predictable, reliable, low-volatility customer. We don't show up when there's a disaster and say, oh, we've got to have a whole bunch of memory.

We're there all the time. And we've been there all the time. And so that I think is super helpful. And also, just the breadth of our demand signal and the quality of our demand signal is appreciated. And these guys have been whipsawed in the past by the hyperscalers where they overbuild and the hyperscalers turn everything off and stop buying. That does not happen with our demand. Our demand is a lot more stable, and that's appreciated and that's part of the relationship. And also, we've treated them like long-term partners and they've generally reciprocated.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Yeah. No, that's a great point. Time's flying. We only have five more minutes here and there's so much more to talk about. So maybe quickly here, I do want to touch upon what Dell is doing internally with AI. You mentioned agentic AI, mentioned sort of productivity, different metrics, whether you look at it on a per employee, per profit metric, revenue metric. What are you doing with agentic AI within the organization? And where are you in that deployment like sort of cycle?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

So I would say we're rapidly hurling toward it. And if you look at our modernization, we've been on this theme for several years; you've been hearing us talk about it. Our OpEx has come down for four years in a row, which is pretty unusual. And this kind of started going in 2023, and we think there's still more to go and significant scaling benefits. And we've guided OpEx to a single-digit percent of revenue, that hasn't happened in 20 years.

And of course, we have an even more R&D-intensive business than we did 20 years ago. It's 100% structural, there's tons of opportunity, and we're doing this while we're investing in our R&D, in our sales capacity, in our support, and in our supply chain. So I would say I'm super bullish on our ability to generate productivity. And ultimately, that makes us a much more competitive company, opens up paths to profitable growth, kind of as you've been seeing. So stay tuned.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Yeah, quite amazing. I mean -- yeah, no, adding \$30 billion more on top line with very little incremental OpEx, so quite amazing. Maybe in the few minutes that we have left, on a prior call, I think, with me, you said you are the ultimate long-term investor. How do you define success for Dell in the next 10 years?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

I would say, the last five years, we outperformed the Mag 7 with the exception of NVIDIA, but in aggregate, we outperformed the Mag 7, including NVIDIA, but we outperformed every component, except NVIDIA.

Certainly, we look at our relative performance to the S&P IT Index, and we see tremendous opportunities to continue to grow, generate strong cash flow. You've seen our capital return policy has been super shareholder friendly. Buying back stock, we bought back 54 million shares of our stock. We increased the dividend by 20%.

And I think you'll see us continue to generate strong revenue earnings growth, free cash flow, and the business should be a whole lot more valuable. And certainly, we would endeavor to outperform all the relevant benchmarks by a lot.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Yeah. You are and continue to be a technologist at heart, and you have taken this company from basically you starting it to this amazing scale of now \$140 billion a year in revenue with very fast earnings growth. So I can see you're very excited about the future of Dell. Any final thoughts for investors why they should be just as excited as you are?

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Yeah. So in the last five years, we doubled EPS, 15% EPS growth. And we talked about that as our long-term framework for the next five years. ISG is super well positioned. Obviously, you know about our guidance for this year. Our portfolio has never been in better shape. Our operating model is super strong. We've got relationships with customers and supply chain, and we have a ton of levers in this business to drive EPS and cash flow and shareholder return. So I feel very good about the future opportunities for our company.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Amazing. Well, Michael, we really appreciate your time. This has indeed been a great discussion. Always love your insights, love the work you're doing for our country, for the future. Just incredible always to speak with you. And it's been an honor and a pleasure. Look forward to catching up with you again. And thank you so much for all your time and your insights.

Michael Dell - Dell Technologies Inc - Chairman of the Board, Chief Executive Officer

Thank you. Thank you, Wamsi. Thanks, everyone, for joining us today. Take care. Bye-bye.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Thank you, everyone. Thank you so much, Michael. I really appreciate it. That was amazing.