DELL INCORPORATED

Moderator: Robert Williams
Friday, December 21, 2018
3:00 p.m. Central

Robert Williams: Thanks, Julie.

With me are our Chief Financial Officer, Tom Sweet, our vice chairman, Products and Operations, Jeff Clarke, our Treasurer, Tyler Johnson, and Hall Butler from Investor Relations.

Today, we want to quickly recap where we are with respect to the Class V transaction and answer questions you have about our pending Class C common stock or Dell Technologies in general.

If you have more detailed modeling questions, please direct those offline to the investor relations team.

On December 11th, stockholders approved the Class V transaction. Based on the 17-day VWAP period used to determine the final Class V exchange ratio through Wednesday's close, stockholders can elect to exchange each share of Class V for 1.7983 shares of Class C or $120 per share in cash, up to approximately $14 billion. If the $14 billion cap is reached, stockholders electing cash will receive a prorated combination of cash and stock.

Class V stockholders have until 5:30 p.m. Eastern Time today to make a final cash or stock election. We expect Class V shares to stop trading at the end of the day on Thursday, December 27th, and the Class V transaction to close before the market opens on Friday, December 28th. We expect Class C shares to start trading on a when-issued basis on December 26th and on a regular way basis on December 28th on the New York Stock Exchange under the ticker symbol D-E-L-L.

We will issue a press release and 8-K on December 28th detailing the final aggregate VWAP, the final exchange ratio, the final aggregate cash/stock election results, and basic and fully diluted shares outstanding.

We have posted a presentation on our Investor Relations website to provide additional perspective on the company and the class C share opportunity.

I'd like to remind you that all statements made during this call that relate to future results and events are forward-looking statements that are based on our current expectations. Actual results and events could differ materially from those projected in our forward-looking statements, due to a number of risks and uncertainties, which are discussed in our annual and quarterly SEC filings, in the cautionary statement contained in our press release, and on our website. We assume no obligation to update our forward-looking statements. With that, I'll turn the call over to Tom Sweet.

Tom Sweet: Thanks Rob.

A lot has changed at Dell Technologies as we transformed the company over the past five years, including the acquisition of EMC in the fall of 2016, which strengthened our storage and software portfolio. We are number one across all key external storage categories and we have boosted our software-defined and cloud capabilities with VMware and Pivotal. We are also number one in server revenue and units and we have client revenue and profitability, and we have gained PC share year over year for 23 consecutive quarters.

From an industry perspective, we are in the early innings of a technology-led investment cycle, driven by digital transformation and the enormous amount of data that is created every day. Our focus and investments are centered on data enablement through our technologies, to help our customers digitally transform and drive their businesses forward.

While we expect public cloud to continue growing, our momentum is a clear indicator that a healthy combination of on-prem and public cloud investment is critical to our customers' IT strategy. Organizations are adopting a multi-cloud strategy.

We think Dell Technologies is positioned nicely in this world. Pivotal is the tip of the spear with cloud-native applications and container methodologies that allow our customers to modernize their software stack. Boomi brings data migration and integration capabilities to the platform. VMware is the orchestration layer and control plane that bridges and extends private to public cloud and bare metal deployment. DellEMC is the base for IT infrastructure.

Today, we believe Dell Technologies has an unmatched portfolio from the edge to the core to the cloud, and we are the trusted technology partner for our customers. Our portfolio spans seven distinct brands, and together, they give us a tremendous capability to lead the digital, IT, security and workforce transformations of our customers, and to win in the consolidation of the core technology sectors in which we compete.

While some of our competitors have been cutting costs, Dell Technologies has continued to invest in R&D, spending $12.8 billion over the past three years. We have also been investing in sales capacity. We are adding to our direct sales capabilities, including storage specialists and coverage in our enterprise, commercial, medium and small businesses sales teams.

Our direct model is a key differentiator for our business and enables greater margin potential as you think about our reach, cross-sell motion and ability to attach high margin software and services. We also recognize the importance of the channel and have invested in our world-class channel program.

As our integration efforts post the EMC acquisition have taken hold, we are seeing strong momentum in our business and have grown non-GAAP revenue double digits year over year in each of the last four quarters. Over the trailing twelve-month period, we have generated $89.6 billion in non-GAAP revenue, $7.7 billion in cash flow from operations, and $10 billion of adjusted EBITDA, with roughly a third of operating income and adjusted EBITDA coming from VMware.

Looking forward, our guidance for FY19 is unchanged. We expect non-GAAP revenue between $90.5 billion and $92.0 billion, and non-GAAP Operating Income between $8.4 billion and $8.8 billion, and non-GAAP Net Income between $4.9 billion and $5.3 billion.

At the midpoint of the quarter, for the full year, we are trending slightly below the midpoint of the range for revenue and slightly above the midpoint of the range for operating income.

The long-term financial framework that we provided at the September Analyst Meeting remains the same. We expect to update our fiscal 20 framework during our earnings call in March. However, here are some early thoughts.

First, we will have an accounting change related to the new leasing standard beginning in Q1. The standard will result in more of the leases Dell originates being accounted for as operating leases, with the associated hardware revenue recognized over time versus upfront in a capital lease transaction. The leasing standard is prospective, not retroactive for this change, and the impacts will depend on the mix of the business and other factors.

Our current FY20 estimate is that this new standard will impact the timing of revenue by between $500 million and $1.5 billion, and the timing of operating income by between $150 million to $250 million. The P&L impact should normalize over a three-year period. There is no cash impact, and EBITDA is expected to be marginally higher given the new depreciation will be slightly more than the gross margin reduction in fiscal 20.

Second, we continue to invest in the business in such areas as sales, R&D, and our Strategically Aligned Businesses, with these investments layering in during the second half of this current fiscal year and the first part of fiscal 20. We are making these decisions with a disciplined approach and for long-term growth of the company, and we expect to start seeing the return on these investments, particularly in sales productivity, as the year progresses.

Third, given the size of our Dell Technologies Capital Ventures portfolio, we could experience variability quarter to quarter in Interest & Other due to the mark-to-market accounting rules that went into effect this year.

Pending continued regulatory issuance of guidance on tax reform, we expect our non-GAAP tax rate to be between 19 percent and 21 percent.

Finally, at close, we tentatively expect fully diluted share count for A, B and C shares in aggregate of approximately 754 million shares, assuming a max cash scenario.

Keep in mind that for EPS purposes, you will need to back out minority interest impact on net income of our public subsidiaries including VMware, Pivotal and Secureworks.

As you think about our long-range targets and specifically our operating margin target of 12%, a big contributor will be getting our ISG operating margin to 14%. That is certainly an increase from where we are today so it's important to understand the key drivers.

Storage volume is most important, given its margin profile relative to servers and ability to add operating leverage to our P&L. With Jeff Clarke's leadership over the last 15 months, we have taken the right steps to get this business back on track.

We have expanded our storage selling coverage in both our Commercial and Enterprise sales teams and are streamlining our product portfolio. While it can take several quarters for sales-makers to ramp, given the capacity we have put in place to date, we are now focused on driving productivity improvements from these investments in our results.

Storage portfolio simplification is well underway as we work toward one product family in each of the low-end, midrange, high-end and unstructured spaces. We feel the current level of R&D is sufficient to get there as we see significant synergies from reducing the number of products and projects our engineers work on and making sure we are better leveraging knowledge across products.

We have the high-end product line in place today with PowerMax driving strong double-digit growth in the third quarter.

Midrange is a key area of focus. While we work on the next generation midrange SAN solution, the sales teams have seen success positioning PowerMax at the high end of the midrange, and we are seeing progress in the midrange SAN category with enhancements to Unity and SC.

We are the number one external storage vendor by a significant margin, with strong growth in all flash, unstructured and HCI. Based on IDC results published last week, we have now seen three consecutive quarters of storage revenue growth and market share gains, after roughly four years of share loss.

While our storage progress may not always be linear, we are confident the steps we are taking will help us gain back about two thirds of the market share we have lost.

We also expect to improve our server profitability over time as we execute on our server business transformation initiative and expand our server buyer base.

Within CSG, we see the PC market as roughly flat in the foreseeable future. We expect to grow through a combination of share gains, mix improvement and higher attach rates on peripherals and services, which will benefit from our direct sales motion, and continue to gain share year over year as we have done in each of the last 23 quarters. We expect the industry to continue to consolidate around the top three players, growing from approximately 63% today to 75% over time

And finally, VMware will contribute an increasing share of revenue and operating profit over time.

We continue to be focused on long-term value creation, supported by three major characteristics of the business.

First, our differentiated customer offerings meet the demands of an ever-changing IT landscape. We span the existing and emerging infrastructure and the multi-cloud world, providing customers what they need, where they need it. Dell Technologies enables customers to maximize the value of today's investments in one place, while also enabling the business needs of tomorrow.

Second, Dell Technologies is growing share in a large market. Whether the market is up or down in any given quarter, we still expect to gain share over the long-term.

Third, we are focused on long-term growth and cash flow. As we grow earnings, we expect to generate strong cash flow supported by our efficient cash conversion cycle.

Our operating model is much different from the EMC federated model you may remember. Our family of businesses is closely aligned from a go-to-market, best practices and solutions development perspective.

We are on track to drive roughly $700 million of revenue synergies with VMware this year, and 97 percent of our top 500 customers are now buying from multiple Dell Technologies' brands.

We are realizing significant revenue synergies, driven by the cross-sell capabilities across the entire family of businesses, as well as joint solutions we have developed like VxRail and VxRack.

We also think our financial model is best-in-class, giving us liquidity and financial flexibility. While we are taking on additional debt to complete the Class V transaction, our debt load is manageable.

Since closing the EMC transaction, we've paid down approximately $14.4 billion of gross debt, excluding DFS-related and subsidiary debt, while continuing to make appropriate and timely business investments.

As a reminder, we focus on our core debt which excludes our subsidiary, DFS and margin loan debt. Our net core debt, excluding the subsidiary cash post transaction, is expected to be approximately $34 billion.

Our trailing twelve-month free cash flow, when adjusted for growth in financing receivables, is $4.4 billion, excluding VMware, and $7.6 billion including VMware, and we expect that to grow over the coming years as we continue to improve our overall results. This will provide ample ability to continue to aggressively pay down debt, delever the balance sheet and get to investment grade metrics.

While we are watching tariffs, interest rates and pockets of political uncertainty, the overall macroenvironment remains positive.

In closing, we are well-positioned in a large and growing market which IDC projects to grow at roughly two times GDP to $3.5 trillion. We are differentiated against our key competitors and have outperformed them considerably over the last year. We believe no one can match our scale, capabilities, and go-to-market reach to fully participate in the technology led investment cycle and digital transformation journey.

With that, I'll turn it over to Hall.

Hall Butler: Thanks Tom.

Now let's open it up for Q&A. Please limit yourself to one question so we can get to as many of you as possible.

Julie, can you please introduce the first participant?

Operator: We'll take our first question from Shannon Cross with Cross Research. Shannon, your line is open.

Shannon Cross: Thank you very much.

Tom, I was wondering if you could give a little more color. You said that you're tracking a little bit below in terms of revenue for the quarter and a little bit above in terms of operating income. Can you give us any more color on what areas are doing better than others within your portfolio?

Thank you.

Tom Sweet: Hi, Shannon. It's Tom.

Look, the answer is I'm not going to give you a whole lot of color on that at this point, right? It is midpoint in the quarter. Based upon the trends we're seeing, the framework that we laid out in our November 29th call when we announced our third quarter earnings is the framework that we have out there. So I'm not going to elaborate on that at this point.

Shannon Cross: Okay, thanks. Can I hop one more in just since you couldn't comment on that?

Hall Butler: Go ahead, Shannon.

Shannon Cross: Thank you.

I was just curious, you know, when you guys were private you focused sort of less on the quarter and more on just overall, I guess, annual numbers or that. And I'm curious as to how if anything is going to change now that, you know, you're going public again, how you think about the cadence of business, cash generation, et cetera, what you're most focused on versus growth versus profitability?

Maybe you think of a little bit more of an overview of sort of how you're thinking strategically about the key points that Dell is targeting.

Thank you.

Tom Sweet: Okay, Shannon. I can answer that one for you. So, look, I think nothing really changes from our perspective in terms of how we want to run the business post this transaction. We are focused on long-term value creation, as we've been talking about over the last number of years, and the legs of that stool are going to be around growing, on relative growth in terms of growth against the market and growth against our competitors and growing at a premium. It's around balanced growth, meaning that within that growth we want that growth to be profitable and over time expand operating margins as we've been talking about. And with that comes the ability to then drive cash flow.

So we're thinking about it on a long-term basis. We've been, I think, fairly clear that we're going to continue to run the company under that sort of framework. And that hopefully our investor base will understand that that's how -- long-term value creation is our focus and we'll manage it that way.

Shannon Cross: Thank you.

Operator: Our next question comes from Katy Huberty with Morgan Stanley.

Katy, your line is open.

Katy Huberty: Thank you. Good afternoon.

Can you just comment on your desire to return to investment grade credit rating, the timing of what that might look like, the potential path of how you would consider getting there in terms of any refinancing or willingness to raise capital in other ways versus just depending on the free cash flow in the business?

And then, any guidelines as it relates to how much we should expect the business to de-lever on an annual basis in terms of is it half-a-turn a year or any guardrails around your plans around paying down debt?

Thank you.

Tom Sweet: Hi, Katy. It's Tom.

Let me take a top-level comment around that and then I'm going to ask Tyler Johnson our treasurer, to comment on some of the more specifics of your question.

But in terms of our desire to return to investment grade metrics, I think we've been pretty clear on that over the last number of years as we have managed and run the company.

Given our size, scale of the company, the fact that we have a financing business as well and just for the flexibility of the capital structure that we thought it was appropriate to be targeting an investment grade metric framework. And nothing has changed on that, irrespective of this transaction, in terms of our desire to drive towards that. So it is a long-term framework focus.

And, Tyler, maybe I'll turn it over to you about some of the more specifics of some of those -- of Katy's questions.

Tyler Johnson: Yeah, sure.

Hi, Katy. Look, I think rather than give specific targets around like half return a year the reality is I think nothing has changed in our capital allocation approach. So we will continue to throw the majority of our free cash flow at debt pay down. And if you look forward in the next year we have publicly talked about the fact that our plan is to pay down the roughly $4.8 billion, which are the maturities in June, and then term loan amortization.

And, look, we'll do that with cash on the balance sheet and we'll do that with free cash flow that we generate between now and then. And then we'll dip into the revolver temporarily and then that will end Q2 with the revolver balance and then we'll pay that down in the second half of the year, probably in Q3.

So like Tom said, nothing has changed. It's always hard to say specifically when the rating agencies are going to give us that investment grade rating. I think that they're happy with our progress. Obviously, we've raised $5 million to close the transaction. But, our intent and focus has not shifted outside of that unique need, where we'll continue to pay down debt.

So I don't know if that gives you what you were looking for, but I think there's a point.

Katy Huberty: Yeah, that's very helpful. I appreciate that.

Hall Butler: Thanks, Katy.

Operator: Our next question comes from David Eller with Wells Fargo.

David, your line is open.

David Eller: Hey, good afternoon. Thanks for taking the call.

You talked about the $4.4 billion of LTM free cash flow you've done when adjusting for the DFS financing receivables. And, Tom, as we look forward to the next year, you all talked about paying down debt, versus refinancing. Is it fair to think of that $4.4 billion as maybe kind of a low water mark for next year, or in other words kind of being the minimum level?

I think as I look forward you've got some headwinds from potential tariffs and CPU shortages. But then you've got still strong economic environment and a pretty significant potential inventory working capital unwind over the next couple of quarters.

So is there any way you can talk about your ability to kind of hit that number in order to get you to that $4.8 billion of debt maturities due next year?

Tom Sweet: Hey, David, it's Tom. So let me comment on that and Tyler can jump in, as well.

So look, I mean I'm not going to give specific guidance around cash flow for next year. I would point you towards our long-term framework that we have out there around our growth and plans to expand profitability over time. I think we're confident in our ability to manage our cash flow appropriately.

Tyler has talked about the fact that we -- I think we talked about it in our Q3 call that we did have some growth in some of the working capital components, particularly inventory that we will work to unwind over the next couple of quarters, given some of the macro dynamics.

So I think we feel good about our ability to generate cash flow appropriately, given the size of the company and the size of the balance sheet to take care of our debt service needs.

Tyler, I don't know what else you would say to that.

Tyler Johnson, I think the only thing I would add is we do run lots of different sensitivities around the business and sensitivities exceeding growth or missing growth and I feel good where we are today, given the cash that we ended Q3. We've been able to -- although we've been impacted by this working capital use, at the same time we've been able to free up some trapped cash in different jurisdictions, which helps.

And I've talked about the fact that we are going to use a revolver. So I feel good that we'll finish the year with the 4.8 debt take down, as we said today.

David Eller All right. Thank you for taking the question.

Hall Butler Julie?

Operator Our next question Wamsi Mohan with Bank of America Merrill Lynch.

Wamsi, your line is open.

Wamsi Mohan Yes, thank you. On the ISG margin step up, can you give us some sense of how much of that is just a relative change in mix as storage becomes a larger piece of the portfolio through the initiative that you have spoken about versus maybe other optimization that you're targeting?

And secondarily, can you give us any sense at all of what the cash conversion cycle is between ISG and CSG? Thank you.

Tom Sweet Hey, Wamsi, it's Tom.

So look, as it relates to the ISG profitability, we've laid out a framework and I think it's in our guidance slide that talks about the fact that it's approximately -- we'd like to migrate that operating margin up to approximately 14 percent I think by the time you get to the 2023 framework.

So what I would tell you is that there's three or four levers within that, or three levers within that around -- one is around, as we've talked about, regaining and remixing some of the ISG business, relative to the mix of storages, as you know, and as we talked about publicly. The storage business went through a four-year period essentially where it was losing share. That's turned around this year. I think Jeff and his team have done a very nice job of working through the portfolio challenge. We obviously are continuing to work on that.

We've added go to market capacity and capability and we now have three straight quarters of share gain and I think we've taken something like over 300 basis points year to date in the storage category. And we're back up around that 31.7 percent share I think at this point.

So, look, I feel good about the progress we've made. As you think about the migration upward of operating margins, it's a combination of continuing to grow the storage business. And we've got some premium frameworks that we've laid out in the guidance that are orders-based, I might add. But in terms of how we want to grow at a premium to the market.

Also, I would remind you that we've talked about publicly that we need to continue to drive server profitability up through a combination, as I mentioned in my remarks around server business transformation, as well as continuing to expand the buyer base of servers.

And I think all of those programs are well underway. Now, it will migrate up over time. It's not going to be linear in all instances. But I think we feel good about our ability to move the profitability model up of the ISG business as we continue to scale the business.

Wamsi Mohan: Thanks, Tom.

And can you just give us some sense between the cash conversion cycle between ISG and CSG?

Tom Sweet: No, we don't disclose that publicly. So I can't help you on that at this point.

Hall Butler: Thanks, Wamsi.

Operator: Our next question comes from Toni Sacconaghi with Bernstein.

Toni, your line is open.

Toni Sacconaghi: Yes, thank you.

I'm wondering if you can comment on a couple of potential factors over the next year or so. One is currency, which I think you mentioned in Q2 and Q3 as being a material headwind to CSG profitability. The dollar and currency has become more unfavorable for you. So how do we think about its potential impact next year at current spot rates?

And then secondly, I'm wondering if you can comment on commodity prices, which generally speaking on a year-over-year basis were unfavorable last year, but likely resulted in prices being passed on and richer ASPs and that's beginning to reverse.

And so as we look forward are there opportunities for incremental margin capture of that and should we expect server and potentially PC ASPs to change quite dramatically from what we saw in Fiscal '19?

Tom Sweet: Hey, Toni, it's Tom. So look, let's do this in two parts. One is Tyler and I will talk briefly about the currency question and then we'll have Jeff comment on commodity cost and our point of view on that is we understand it at this point in time.

Currency as we talked about in Q2 and Q3 has been a headwind, given the strengthening of the dollar. I think we talk about the fact that in our business what we try to do is price for that currency movement, particularly as quickly and as nimbly as we can.

And that is what we'll continue to do. It has been a headwind and we've called that out as we think about -- obviously currency is going to be impacted by a number of different factors as we go through FY '20. Our management strategy and our mitigation strategy around that is our hedging program that we have and we have a pretty comprehensive hedging program, as well as the pricing activity that we do to try and mitigate any impacts at the local market level.

So, Tyler, I don't know what else you would say about the currency.

Tyler Johnson: No, I mean I think you said it. I mean the only thing is, as you know, Toni, the hedge program it slows down the impacts, but it can't eliminate the impacts. So obviously in I think it was April, May of this year we did see some pretty strong euro growth and then that slowed down. So ultimately, we do see the impacts of that come through, but the hedge program will help mitigate some of those impacts.

Jeff Clarke: And then, Toni, this is Jeff.

To your second question, we are entering a deflationary period after, geez, I can't remember a longer one after nearly eight quarters of having an inflationary cost environment we're beginning to see the tail winds of a deflationary environment heading into next year and we think that's the case through the first half.

You know in our direct model we generally when prices go up the higher prices get into our system faster than others. And you know as costs go own those lower costs get into our system faster than most others, given in general our lower inventory model. And you've seen us in the past be able to take advantage of our ability to get to those lower cost components faster and expand margins.

Now we're going to balance the right growth and the right profit mix. But we certainly see an opportunity, given where we are in the marketplace today and a deflationary marketplace to be able to optimize our pricing and take advantage of a deflationary period.

In fact, Tom was talking about servers and server margin recovery, one of the four things that we believe we need to be doing is around deflation and price optimization and making sure we continue to operate and take share and our relative share guidance that we've given, as well as improve the margin structure. And this is a key component of that. As it is, an offset in the PC business of FX and some of the other increased supply chain costs we're incurring now.

Toni Sacconaghi: Thank you for that. I'm wondering if you could help to mention how much commodity costs helped selling prices in '19 and whether the converse ends up being the case in '20?

Jeff Clarke: Ask that again, make sure I understand that question please.

Toni Sacconaghi: I'm just wondering if you can comment specifically on servers, but I would imagine that you saw this in storage, as well, how much average selling prices were aided by a rise in component prices and do we believe that the converse ultimately happens in 2020?

Jeff Clarke: Well, certainly we had an uplift of higher cost components, ASPs across the board. And I think maybe a contrary point to an individual unit's decline in servers, the amount of memory we're putting in server continue to go up. So while each component we may put in, in the future, will cost us less than yesterday, we're putting more in. We're seeing the average SSD that we put into a device go up in its capacity, as well.

And then lastly we're still in the midst of our 14G transition, which has considerably higher ASPs with more memory channels, et cetera. So I think those are good counter balances to what is going to happen with deflationary components.

Toni Sacconaghi: Thank you.

Hall Butler: Thanks, Toni.

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

Thomas, your line is open.

Thomas Egan: Oh, great. Thanks for taking my question, it's for Tom or Tyler.

Could you just clarify what you released in the press release today regarding the loans that you'll be using for the $5 billion that you'll be paying for partial repurchase of the DVMT?

I got a $1,170,000,000 revolver, $1,650,000,000 A4, and then I got a little lost in the language on the A5 loan. Is the A5 $5 billion reduced by the first two and then reduced by other things that you might do to raise cash?

Tyler Johnson: Tom, let me just walk you here right. So we did raise a new A4, right, and that's $1.65 billion. And then we actually, we had the existing margin loan, the one that matures in '22. So we actually added incremental margin loan. So that was $1.35. So that gets you to $3 billion sourced that way. And then we funded the difference with eh $2 billion drawdown to bridge, which is the A5. That's the A5.

So the intent then is when we get into the new year, right, we'll deal with that $2 billion, recognizing it's a one-year term loan A, but we'll look to term that out in the new year.

Thomas Egan: Understand. And is the intention to do that mostly with loans or would you consider bonds?

Tyler Johnson: Look, I'm going to be open, right, I mean we'll wait to see what the markets look like. As you know the markets have been pretty dicey. Quite frankly I was pretty happy with the results of the term loan A that we did. So we'll wait and see what things look like. It would be nice if we don't have days when the Dow is down 400 points, but we'll see what happens.

Thomas Egan: Yeah, that would be nice, Tyler. Okay, thank you very much. That's very helpful, bye.

Operator: All right, our next question comes from Aaron Rakers with Wells Fargo.

Aaron, your line is open.

Aaron Rakers: Yeah. Thank you for taking the questions. I want to try and sneak in real quickly two of them as well.

On the server discussion, sorry about that, on the server discussion I'm curious, in the prepared comments you suggested that one of the drivers of leverage would be to more optimize the mix, the customer mix, within that portfolio. I'm curious, how do I think about the mix of the business today and what effectively that mix change might look like as we try and drive better leverage or better operating margin expansion in the server business? Is there a high degree of exposure to the hyperscale cloud vendors in that mix is kind of what I'm trying to understand.

And then, secondarily, can you just remind us again on the update of the midrange storage portfolio where we stand as far as product cycle or refresh on those solutions?

Jeff Clarke: I'll try to answer that first question. If I miss the mark please redirect. We don't have a large exposure to the density optimized portion of the server segment. So where our focus has been is on the mainstream. And what we're seeing is a resurgence of that business. We think a part of that is we are in the middle or I should say the early innings of this technology-led investment cycle. We see a repatriation of workloads. We see new emerging workloads being deployed on-prem that's been a pretty good, if you will, accelerant to the mainstream server business.

And if you look at our mix, what we're trying to do is mix up into those higher workloads that carry higher ASPs and higher margins. And that is both across our enterprise customer segment and commercial customer segment. So we're looking at taking on the workloads that are associated with machine-learning, artificial intelligence, some of the new emerging workloads around edge computing. SAP is an historical workload that we haven't been overly exposed to that is a very profitable area of workloads that we need to continue to migrate to. And those are part of our plans as Tom has referenced in the past, I have as well, and our program called Server Business Transformation is mixing up into the workload side or the higher workload side of our server business.

Was that the question?

Aaron Rakers: Yeah, I think that was exactly helpful. And I think in that context, remind us the amount of memory content growth that comes along with those mixes, is the offset kind of referencing back to Toni's question?

Jeff Clarke: Well, that was my point. Two things, as we continue our migration to our 14G platform and complete that next year and move up to higher workloads or bigger workloads, it takes on more memory per server, more storage per server. I think those are offsets to some of the deflationary trends that I mentioned earlier.

Aaron Rakers: That's helpful.

And on the update to the midrange storage portfolio?

Jeff Clarke: Anything specific? I'm happy to answer any question, about the new one, about what we're doing with the current portfolio today, both, did I just give myself two questions to answer?

Aaron Rakers: I guess I think it's --

Jeff Clarke: The silence says, go ahead and answer both, Jeff.

Tom Sweet: Well, you volunteered. There you go.

Jeff Clarke: A part of this, as I think about the business and Tom mentioned it in his remarks where we had lost share now for heading into this year, 15 out of 16 quarters, 13 quarters in a row, and we've been very pleased with now three quarters in a row of share gains. He hit the mark 300 bases points year to date, 31.7 percent share, in our mind stabilizing the business. And that's important given the previous four years as we headed into the year.

I've been in the role 15 months, and I think about as we head into calendar '19 or our fiscal '20 the position that we're in today versus where we were a year ago and given that we've grown at this rate year to date, we enter calendar '19, fiscal '20 in a much better position. We had a number of operational issues at hand a year ago. Those are all behind us. Operationally, quality, lead times, delivery times all-time highs in the business today.

We've invested in marketing and demand generation in that market. We've cleared up our product positioning. We are investing in demand generation more next year than this year. Our loyalty program that we've talked about that we launched a year ago now has expanded to the entire portfolio. Tom and I have talked countless times about the number of additional sales resources that we've put in place. They all enter next year with an additional year of tenure. Tenure is one of the primary drivers of productivity in our business.

I think about our ability to continue to invest. We mentioned on the last call that we're investing in our enterprise coverage and capacity. We've added new cloud capabilities to close the competitive gaps. I like what we're doing there, specifically to midrange products, whether it's been XtremIO, Unity, the FC, we've added asynchronous replication, increased capacity. We've increased performance. We've increased our data reduction rates across the board.

We entered a year ago in a much more competitive position. And I think it's right to criticize or maybe be suspect that how did Dell grow or how could Dell grow given its relative competitive position a year ago. I'm much more optimistic 15 months later on what we have done and put ourselves in a competitive position in the midrange.

I would also call out in the midrange as IDC counts, we've gained share this year. We've gained share more than anybody else in the midrange where you have the industry has grown 17.6 percent and we've grown 34 percent, taking 350 bases points of share with those known issue that we had a year ago that we've largely resolved throughout this year putting ourselves in excellent position as we head into next year or maybe better stated a more competitive position.

We've pulled down the PowerMax 2000 to drive MVME into the very top end of our price band. So price band eight, midrange coverage. We've refreshed the ME4, which was a product, the old PowerVault product that had not been refreshed in years. We've launched that product in September, which is the primary replacement for the VNXE business which had not had a replacement for a long time, with twice the performance.

In calendar '19, FY '20, we will take the current portfolio and we will continue to work on data reduction. We will close all competitive gaps. We'll add more performance, more capacity. We'll put more storage capabilities in place on our way to the dot-next product, the new midrange product, the new architecture that I've talked about, that will be out at the end of next year.

And for those customers that are buying today to assure them our loyalty program allows migration, all the things that you expect us to do to migrate from old product to new product and providing the right intelligence in the product to do data migration from those old platforms to the new platform.

So that's where we are. I feel very good where we are today. We know what we need to do. We're in a much better competitive position as we head into the new calendar year than we were a year ago. There's still work to do.

Tom hit it right. This is not going to be a nice linear bump. It's going to be, I think, a bumpy road at times, but we're doing all the things that we know how to do in the storage business. I think we have a good grasp of what needs to be done, and most importantly we've aligned the organization to do it.

Part of what we've done along this journey is there are more engineers working on new storage platforms today than there was a year ago, significantly more, more focused more channeled, doing new innovation, new differentiation and not spending time replicating complementary or competing products in our own family.

That may have been more than what you bargained for but that's what we've been doing on the midrange storage side. Does that help?

Aaron Rakers: That was perfect. Thank you, guys. That was perfect. Thank you.

Jeff Clarke: You're welcome.

Hall Butler: Hey, Julie. We have time for one last caller.

Operator: We'll now take our final question from Rod Hall with Goldman Sachs.

Rod Hall: Hi, guys, thanks for fitting me in there.

I just wanted to check, I guess I wanted to clarify one thing and ask you a question. The clarification is regarding the stranded cash. Could you just confirm that you've pretty much freed all of that, there's no material stranded cash out there, or if there is kind of give us some idea how much it might be?

And then the real question is, what do you think the minimum cash you'd like to keep on the balance sheet is to operate the business?

Thanks.

Tyler Johnson: Hey, this is Tyler.

So, look, just like everybody we've got pockets of cash that sit in places like China or India or South Africa that it's a little bit harder to get to right now. Now, we've had some different initiatives in place that have freed up some of that cash. And like I mentioned earlier, the timing is good, right, because with the June debt maturities.

I would say those numbers kind of fluctuate, but probably in terms of the minimum amount of cash needed to keep on the balance sheet, it ranges. So it's probably around $5 billion at the high end, but like I said it fluctuates depending on where we are in the fiscal year as well as kind of how some of these balances are evolving.

Rod Hall: Great. Really appreciate that. Thanks, Tyler.

Hall Butler: Thanks, Rod.

As we wrap up the call, I want to remind everyone that we will be on the road in January. Jeff Clarke will be speaking at the Citi Global TMT West Conference in Las Vegas on January 8th. The Investor Relations team will be at CES that same week. We are also planning a national roadshow for the weeks of January 4th and 14th.

We appreciate you joining us here on a Friday afternoon and hope that you and all your families have a great holiday season.

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

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