

**DELL INCORPORATED**

**Moderator: Robert Williams**  
**March 30, 2017**  
**7:00 a.m. Central**

Robert Williams      Thanks Regina.

Good morning and thanks for joining us. With me today is our Chief Financial Officer, Tom Sweet; our President of Infrastructure Solutions Group, David Goulden; and joining us from Europe, is our Treasurer, Tyler Johnson.

On this call, we will focus primarily on Q4 results. We will provide more details on our strategy, integration efforts and capital structure at our Investor meeting on April 5th. For more details, please see the events section of our website at [investors.delltechnologies.com](http://investors.delltechnologies.com).

We've posted our fourth quarter press release and web deck on our website, and Q4 financial results will be filed on Form 10-K tomorrow, March 31st. I encourage you to review these documents for additional perspective. In addition, Fiscal 2017 had an extra week, which was incorporated into the company's Q4 results.

Now I would like to highlight key changes to our financial statements due to the EMC merger and the announced divestitures.

As mentioned last quarter, we are reporting EMC and VMware on the Dell Technologies fiscal year. VMware Inc. has transitioned and will publicly report their standalone financial results on the basis of Dell Technologies' fiscal year, which started on February 4, 2017, and will end on February 2, 2018. Operationally, this transition will help align our combined financial goals and go-to-market approach.

Due to the recent divestitures of Dell Services, Dell Software Group, and the Dell EMC Enterprise Content Division, these businesses were reported as discontinued operations in Q4 results. In prior quarters, all assets and liabilities of these businesses were reclassified into the held for sale asset and liability categories on the balance sheet.

On the income statement, the financial results of these businesses were reclassified out of the activity from continuing operations, and listed separately in the category for discontinued operations.

For more information, please refer to our SEC filings.

Our Q4 non-GAAP operating income excludes approximately \$3.5 billion of adjustments. The majority of these are non-cash and relate to purchase accounting and amortization of intangible assets. Please note that due to the EMC merger and to a lesser extent the Dell go-private transaction, there will continue to be significant bridging items between our GAAP and non-GAAP results for the next few years, although the impact will decline in each subsequent quarter.

Please refer to slide 3 in the web deck for additional detail on the non-cash adjustments and the supplemental slides beginning on slide 17 as well as our SEC filings for more details on our total non-GAAP adjustments.

As a reminder, please note that our prior year historical financials do not include EMC historical results and, unless otherwise specified, all growth percentages refer to fiscal year-over-year change, which is compared to Dell prior year results.

During this call, we will generally reference non-GAAP financial measures, including non-GAAP revenue, gross margin, operating expenses, operating income, net income, EBITDA and adjusted EBITDA on a continuing operations basis. A reconciliation of these measures to its most directly comparable GAAP measure can be found on Form 10-K and in the supplemental material of our web deck.

Finally I'd like to remind you that all statements made during this call that relate to future results and events are forward-looking statements based on current expectations. Actual results and events could differ materially from those projected due to a number of risks and uncertainties, which are discussed in the cautionary statement section in our web deck. We assume no obligation to update our forward-looking statements.

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

Tom Sweet

Thanks, Rob.

Fiscal 2017 was a busy year and I'm pleased with our progress. Over the course of the year, we successfully completed the merger of EMC, becoming the world's largest privately controlled technology company with market leading solutions.

We divested certain businesses including Dell Services, Dell Software Group, and Dell EMC Enterprise Content Division. We successfully completed the IPO of SecureWorks. We maintained our capital allocation focus by de-levering approximately \$7 billion dollars in debt since the transaction closed. We cumulatively repurchased \$824 million dollars of Class V shares, which Tyler will cover in more detail; and we continued to invest in key strategic areas supporting our customer's digital transformation agenda, including hyper converged, hybrid cloud, software-defined solutions, and end user computing.

Our GAAP revenue for the full year was approximately \$62 billion with a GAAP operating loss of \$3.3 billion. As Rob mentioned, our GAAP results were significantly impacted by non-cash purchase accounting and transaction costs.

Non-GAAP revenue was approximately \$63 billion with operating income of \$5.1 billion.

CSG revenue was approximately \$37 billion, up 2 percent for the full year. Our PC business outgrew the industry by 1,000 basis points and gained share year-over-year for the 16th consecutive quarter. Operating Income was \$1.8 billion, or 5 percent of revenue.

In our ISG business, we exited the year with leading share positions in server units and storage revenue. Additionally, we are also number one in revenue share in converged infrastructure, all flash arrays, and purpose-built backup appliances.

Switching to Q4, GAAP revenue was \$20.1 billion with a GAAP operating loss of \$1.7 billion. Non-GAAP revenue was \$20.6 billion. We saw pockets of growth and areas of improvement as we start to benefit from our synergies as a combined company.

While consolidated year over year compares for ISG are not meaningful, CSG revenue grew 11 percent, and we outgrew the industry in both consumer and commercial PC units.

Our ISG business saw revenue growth in PowerEdge Servers and strength in our emerging solutions, including all-flash arrays, hyper converged systems, and software-defined storage, but we did see softness in traditional external storage arrays.

Gross margin at the consolidated level was \$6.6 billion or 32 percent of revenue. Opex was \$4.8 billion, or approximately 23 percent of revenue, as we continue to execute on our cost initiatives and invest to drive growth

in a rapidly changing market. Operating income was \$1.8 billion or 9 percent of revenue.

Now, let me turn it over to Tyler, to cover our EBITDA, cash flow, and capital structure.

Tyler Johnson

Thanks, Tom.

Adjusted EBITDA for the quarter was \$2.2 billion dollars or 11 percent of revenue. Please see slide 17 in the web deck for more details on our EBITDA adjustments.

In Q4, we generated cash flow from operations of \$676 million dollars. As a reminder, this includes approximately \$1 billion dollars in interest expense as the majority of interest payments occurs in Q2 and Q4 of each fiscal year.

In addition, we paid approximately \$500 million dollars related to a tax settlement, and to a lesser degree there were impacts from integration and divestiture costs.

Our cash and investments balance increased by \$287 million dollars versus the previous quarter, ending the year at \$15.3 billion dollars.

Having just completed our first full quarter as a combined company, we are happy with the progress we have made in regards to our balance sheet and capital structure management.

Since closing the EMC transaction, we have paid down \$7 billion dollars in debt. This includes \$3.1 billion dollars of Term Loan A and \$2.2 billion dollars of the Asset Sale bridge loan retired in Q4, both funded by net proceeds from the divestitures.

In addition, to date we made payments of \$1.6 billion dollars on our revolver and paid \$100 million dollars in Term Loan amortization. These debt repayments result in a \$200 million dollar reduction in annualized interest expense on a run-rate basis.

At the end of Q4, we announced our intent to re-price our existing Term Loan B facility and raise an incremental \$500 million dollars, which would be used to partially pay down our \$2.5 billion dollar Margin loan bridge. We successfully closed this transaction on March 8th, resulting in an expected incremental \$40 million dollar reduction in annualized interest expense on a run-rate basis and applied the \$500 million dollars as planned.

We ended the quarter with \$50.4 billion dollars in total principal debt. Of this amount, \$43.7 billion dollars is core debt. The remainder included approximately \$5 billion dollars of debt that funds our global financial services business and \$1.5 billion dollars of a bridge facility, backed by a legacy intercompany note due to Dell Technologies.

Moving to our share repurchase program. Last quarter, we announced that our board had authorized a new Class V common stock repurchase program for up to \$500 million dollars over a six month period for the Class V Group. To fund the new program, Dell Technologies entered into a Share Purchase Agreement to sell \$500 million dollars of VMware Class A common stock to VMware. Related to this announcement, we simultaneously suspended the previous \$1 billion dollar Class V common stock repurchase program, which was for the DHI Group.

As of today, we have repurchased approximately 8.4 million shares of Class V Common Stock for \$500 million dollars under the Class V Group Repurchase Program. Combined with what was repurchased under the original \$1 billion dollar DHI Group program, we've repurchased a total of \$824 million dollars, or approximately 15.1 million shares.

In addition, today we announced that our board has approved an amendment to our existing Class V Group Repurchase Program for up to \$300 million dollars over six months and solely funded through a new VMware Class A Stock Purchase Agreement with VMware.

I want to reiterate that our overall capital allocation strategy has not changed, and we remain focused on our plan to de-lever the balance sheet through profitable growth and strong cash flow generation.

Let me turn it over to David.

David Goulden

Thanks, Tyler.

The Information Solutions Group, or ISG, had a solid quarter with share gains in key product areas including all-flash arrays, converged integrated infrastructure, hyper converged infrastructure, and servers. More on these in a moment.

While we executed well in the growth areas of our portfolio, there continues to be pressure in traditional solutions as customers balance spend between IT and digital transformation initiatives.

In total, Q4 revenue for the ISG business was approximately \$8.4 billion with operating income of \$1 billion or 12 percent of revenue.

Looking at results by segment, our server and networking revenue of \$3.6 billion, increased 12 percent. In servers, we outgrew the market to regain the number one unit share position on a global basis according to IDC.

The strength was driven by our mainstream PowerEdge business where we gained approximately 600 basis points of year-on-year revenue share against our closest competitor. Our high volume cloud server business declined, which tends to fluctuate quarter-to-quarter based upon customer order patterns.

While we're very pleased with the velocity of the server business this quarter, we continue to work to improve our cost structure and ensure we have the right solutions at the right price points to meet our customers' needs. We continue to invest in this business and look forward to announcing our next generation of servers later this year.

Our networking business grew approximately 2x the market and had its highest level of revenue in eight quarters driven by our open networking strategy and by winning new service provider and web tech customers.

Storage revenue of \$4.8 billion was up substantially due to the impact of the Dell-EMC transaction.

As a reminder, the change in the legacy EMC fiscal year from December to January along with our focus on working capital efficiency has caused a change in backlog especially at the end of a calendar quarter and this change will also result in a change in sales linearity, particularly in the first calendar quarter of 2017. So for today's call, we are going to talk about the performance of our storage business for calendar Q4 on a demand basis.

We had record setting Q4 demand in our all-flash array business and exited the year with a growth rate of almost 100 percent to a more than \$4 billion demand run-rate and gaining significant share. We believe we are nearly the size of the next three competitors combined as we continue to capture the market shift to all flash.

In converged infrastructure, our VBlock integrated infrastructure business also had its largest quarter ever with demand growing high single-digits on a calendar basis. We remain the industry leader with well over 50 percent market share as customers continue to look to us to make infrastructure easier while using best of breed products.

Hyper converged solutions have been a major growth initiative this year and with the strength of our Dell EMC XC, VxRack, and VxRail portfolio, we believe we are now the market leader on a calendar Q4 demand basis with strong triple digit growth.

Within our appliance offerings, demand for our Dell EMC XC solution grew triple digits as customer engagement remains strong.

Our VxRail offering is seeing significant growth and ended the year on a nearly \$400 million demand run-rate basis, only 10 months after the product was introduced. The rapid growth is driven by customer demand for a fully integrated solution optimized for VMware environments. We expect the momentum to continue in Q1 with the introduction of our Enterprise Hybrid Cloud on VxRail and global availability of PowerEdge inside VxRail.

Also within our hyper-converged portfolio, our VxRack solutions continue to gain traction in larger environments as we create a new category for data center scale hyper converged infrastructure.

As we look to FY18, we are extremely excited about our position in the market and confident in our ability to execute against our unparalleled solution portfolio, flexible consumption models, and newly aligned go-to-market initiatives. We remain focused on solving the needs of our customers as they work towards IT and digital transformation initiatives to drive business value.

I look forward to sharing more with you about our views of the market and our strategy at our upcoming investor meeting on April 5th. Additionally, I am very excited about the many exciting product announcements we will make at Dell EMC World in May.

Let me turn it back over to Tom who will walk you through the Client Solutions Group.

Tom Sweet

Thanks, David.

The client solutions business had a strong fourth quarter as we further enhanced our portfolio of solutions and continued to focus on profitable growth.

In addition, the overall market was better than expected for calendar Q4. According to IDC, worldwide PC unit shipments for calendar Q4 declined by 1.7 percent, exceeding their forecast of a negative 4.2 percent.

We continue to drive market consolidation. According to IDC, we outgrew the market by 9.9 percentage points in calendar fourth quarter and have now gained share year-over-year for 16 consecutive quarters.

Dell outperformed the worldwide market in both notebooks and desktops and in both commercial and consumer. We shipped 11 million PCs, which was the largest volume of products shipped since calendar Q4 of 2011.

Turning to our fiscal results for CSG, revenue was \$9.8 billion, up 11 percent. This growth was broad-based across both commercial and consumer. Commercial returned to growth, up 12 percent, as we saw growth across all of our major commercial product lines. As is typical in Q4, we saw continued strength in Consumer, which grew 9 percent.

Operating Income was \$342 million, down 29 percent to 3.5 percent of revenue. The decline was primarily driven by pricing decisions in the quarter as well as some positive one-time items in the prior-year period.

As we mentioned on last quarter's call, the third quarter OpInc margins were higher than what we've typically seen for CSG due to a benefit from a vendor settlement and favorable cost environments. So moving into Q4, we expected some movement back toward the normal range, especially as we have started to see an increase in component costs. We are focused on balancing growth and profitability as we move forward.

Performance across both high-end consumer and commercial notebooks continues to be strong with XPS, Mobile Workstations, and Latitude each seeing positive growth. Our Alienware products also had very strong growth as consumers look to us as the leading brand in gaming for high-performance systems with fast processor power, high-resolution screens, and the latest graphics technology.

Desktops returned to growth this quarter, driven by Optiplex and Precision Workstations, and we are starting to see the benefits of our investment, and our focus on innovative form factors.

Dell's focus on innovation was again evident at CES 2017. The company secured 62 awards. At CES, we announced several consumer and commercial innovations, including the world's smallest 13-inch two-in-one in our new XPS 13. This product boasts an InfinityEdge screen, longer battery life, best-in-class security, and has already won more than 30 awards since its launch in January. The Dell Canvas, which is the world's first horizontal smart workspace of its kind aimed at enabling more effective drawing and creation capabilities, and the world's first 32-inch 8K high-definition display.



We were pleased with the performance of CSG in Fiscal 2017. Going forward, we remain focused on expanding our customer base as we continue to take profitable share.

Now, let me shift to the VMware segment and other businesses. VMware had a strong quarter. Revenue from VMware in the Dell Technologies' fiscal quarter was \$1.9 billion with Operating Income of \$565 million, or 29.2 percent of revenue.

VMware helps customers grow and enable their private clouds with software-defined data center and end user computing software, and then expand with hybrid cloud and multi-cloud solutions. We are seeing their value resonate with customers, which is evident in their Q4 annualized NSX bookings run-rate of \$1 billion, and over 2,400 NSX customers; their Q4 annualized vSAN bookings run-rate of \$300 million, and over 7,000 vSAN customers; and their strong quarter for mobility products, with increasing adoption of their complete workspace solution, WorkspaceOne.

In addition, revenue from our other businesses which includes SecureWorks, RSA, Pivotal, and Boomi was \$480 million. SecureWorks standalone revenue was approximately \$119 million, up 26.4 percent, as this business continues to experience strong demand for its subscription-based security solutions. They also continue to make progress in their path to profitability driven by record gross margin and better operating leverage.

Pivotal continued its momentum in the fourth quarter, as it achieved strong top-line growth driven primarily by its subscription software. Pivotal Cloud Foundry saw impressive growth at scale and crossed a major milestone in calendar 2016 with bookings over \$270 million, up 130 percent.

Pivotal Cloud Foundry enables developers to deploy cloud native apps on any public or private environment, including Azure, Google, and AWS. Pivotal works with over one-third of the Fortune 100, and a rapidly growing portion of the Fortune 2000 as it benefits from our combined go-to-market approach.

Dell Technologies delivers a strong portfolio of solutions and a force multiplier effect that provides us with the scale and the ability to serve our customers' needs across existing IT, where we are the leader in servers, storage, virtualization, and PCs; and in the IT of tomorrow, including hybrid cloud, cloud-native applications, software-defined data center, mobility, and security.

So, in closing, we remain focused on executing our strategy and we are on track with a broad set of integration activities. At the beginning of Fiscal '18, we introduced our new sales force segmentation model and channel program. While we are in the very early stages of the Dell EMC Partner program, we have received overall positive feedback from our partners. As I mentioned last quarter, there may be some short-term disruption as our sales force and partners ramp in the new go-to-market activities.

We will continue to drive against the cost and revenue synergies we've identified and we will continue to invest and provide great solutions and services to our customers.

We are pleased with our results this year, but we realize that there is more to be done as we continue to work our way through the integration and stay focused on our customers in the coming quarters.

Now, I'll turn it back to Rob to begin the Q&A.

Robert Williams Thanks, Tom. Let's get to Q&A.

We ask that each participant ask one question with one follow-up if you have one. Regina, can you please introduce the first question?

Operator We'll take our first question from the line of Thomas Eagan with JP Morgan. Please go ahead.

Thomas Eagan Good morning. Thanks for taking my question.

My question is around margins. Tom, you talked about margins being lower this quarter and you had guided us to the fact that they would be lower. And also, I was expecting because of DRAM prices being higher for them to be lower.

But then you also mentioned things like pricing decisions. So I wondered if you could provide a little extra color around what that means and maybe how much impact some of these things had, like higher DRAM prices on margins.

Then, David, same thing for ISG, you talked a little bit about you need to work to improve cost structure and things like that, but margins there were also down. So I wondered if you could provide a little bit more color around what was impacting margins there, as well. Maybe you could break out some pieces for us, thanks.

Tom Sweet Hey, Tom, it's Tom. So, look, from an overall perspective we had particularly in the CSG space we had cautioned you guys last quarter that

we didn't think that margins would, or operating income percentages I should say, would hold, given some of the dynamics we saw in Q3, coming into Q4.

So, look, I mean we clearly have a bit of a headwind component cost with memory and some of the glass. I think that's going to continue to be a headwind as we go through the first half of the year at least.

And then also, look, I mentioned pricing decisions in my prepared comments. I do think that as we thought about how to balance growth and profitability we were probably slightly more aggressive in the sense of some of the acquisition deals that we were doing and some of our share positionings that we were doing.

You also have to remember that the mix of the quarter is a little different, right. So you've got a higher consumer mix in the quarter, given the seasonality of the holidays.

And so look, as always when we talk about the business, we're all about trying to drive ultimately growth and gross margin dollar growth. And so we did see a little bit of pressure on margin percent. I'm happy with the velocity of the business. And what we're always doing is trying to fine tune what's the right pricing levels to be at, given the state of the business, the state of the market and the cost structures that we're dealing with.

So that's sort of the dynamic we saw as we went through the quarter from a client side and I'll let David perhaps comment on some of the margin dynamics that we saw on the ISG side.

David Goulden

Yeah, Tom, thanks for the question. A couple of factors here, one that impacts both gross margin and operating margin, bear in mind that Q3 was kind of a partial quarter, which impacted things, because it's just a bunch of moving parts and due to the acquisition it flows through the income statement.

Operationally you saw that we gained a significant amount of market share in servers, in a market that was relatively flat. So we did make a conscious decision to drive share gains in that marketplace and that came at some expense on the margin side.

From a server point of view the DRAM pricing didn't affect us as much in Q4, because we bought ahead of that. That's more a factor for us as we go into this current fiscal year.

Thomas Eagan

Okay. Thank you very much.

Operator                    Your next question comes from the line of Jeff Harlib with Barclays. Please go ahead.

Jeff Harlib                Hi. Good morning. Maybe you can update us on the synergy program, the \$2 billion of savings that you expected to realize within 18 months and the integration of sales coverage, channel programs, and how that should phase and if you saw any of those savings in the first quarter, fourth quarter I should say.

Tom Sweet                Hey, Jeff, it's Tom. Hey, look, I think we're generally on track on the cost synergies to date, from what we're executing against. I do think, and I alluded to it in my comments, that we are putting some investment back into the business around capacity, around some incremental solutions. So we'll have to balance that as we go forward, relative to where we are in our cost synergy track.

From a coverage model, I highlighted and we had told you guys in Q3, as well, that as we moved into the first quarter of Fiscal '18, as we move to a unified or a more cohesive selling motion and reorganized the sales organization, that there was the opportunity for that to be a bit disruptive in the short term.

We're early on in that and, while we don't give forward-looking guidance, I would say I think we're generally on track with what we expected with the sales organization and our go to market motion. Customer feedback has been favorable in terms of trying to provide a more unified selling motion and a more cohesive selling motion across the family of businesses. There is still work to do there, by the way. And then with the partner program, early feedback is very positive.

So, look, we've got a lot of work to do. So I don't want to avoid that. But I think so far, I think so far so good.

Jeff Harlib                Okay. And just on the cash flow side, just two quick things. First, should there be material cash taxes against the asset sale proceeds you've realized to this date. And then what about the working capital -- plan to reduce working capital and generate cash from that? It doesn't look like we've seen much of that yet. But do you expect more going forward?

Tom Sweet                Hey, I'll do the first part of that and I'll let Tyler talk about the working capital program.

As it relates to the -- there are cash taxes that will come out against the divestures and those cash taxes get paid generally in Q1. So we should -- so depending upon what the tax basis of these assets were there

is some differences between gross and net proceeds, obviously. I'm not going to get into the exact specifics on that.

But, we've accounted for that and thought through that as we thought about our de-levering plan. So that was all sort of contemplated as we moved forward.

Tyler, do you want to comment on the working capital program?

Tyler Johnson      Yeah, no problem, Tom.

So, yeah, Jeff, we are making actually good progress. I mean I think we've seen some of it come through, but there's definitely more to go. And as we've talked about previously, if you look across all the line items around inventory, receivables and payables we think we've got different opportunities identified that we'll have success on. So you will see more of that come through as we progress throughout the year.

Jeff Harlib      Great, thank you.

Operator      Your next question comes from the line of Scott Wipperman with Goldman Sachs. Please, go ahead.

Scott Wipperman      Thanks for taking the question. Just jumping back on the cash flow, just with the \$500 million, I think you said it was a settlement payment this quarter. I just wanted a little bit more color around that and if there was any other one-time kind of items in the cash flow number this quarter and then I have a follow-up.

Tom Sweet      Hey, Scott, it's Tom. So, look, I mean the \$500 million was essentially the settlement of the IRS exam on this legacy Dell tax year 2004 to 2006, which has been out there and been an ongoing negotiation for a number of years. So we feel pretty good about how that resulted.

Other than that, unusual cash payments in the fourth quarter, the only other thing that we had clearly some WFR-type cash costs come through in the quarter. And then the large interest expense payments. Those were generally the three big things, and lots of different puts and takes. But those are the three big things in the cash, from a Q4 perspective.

Scott Wipperman      Got it. And then maybe just turning back to the business, somewhat related questions, but I guess one on the server side, I mean the share gain obviously pretty substantial and impressive performance this quarter. I guess how sustainable do you think that is on the server side, if you could talk about a little bit of what you're seeing in that market.

And then similarly, on the client side, where are we in terms of the consolidation, market consolidation story that you guys have been driving for the last number of quarters?

Tom Sweet

Yeah, look, let me -- on the server side David can clearly go into a lot more detail on that. Look, I mean I think we feel pretty good about our momentum in sort of mainstream rack servers right now. Look, the market is supposed to be a bit better as you walk into Q1. IDC I think is forecasting overall mainstream units to be up roughly 1.7 percent and for the full year mainstream up 3.8 percent.

So I think the market is generally okay. Obviously there's work to do. It's competitive, but I think reasonable momentum as we go into the quarter and I'll let David probably give you a bit more thoughtful answer on that.

And then on the client side, look, I think if you look at the top three vendors now, according to IDC, I think we're roughly at 60 percent market share on a combined basis. And I think that market consolidation story is clearly happening, as you see some of the weaker players exiting or pulling back from the various pockets of participation that they were in.

So we do believe that in a consolidating market you have to take share and that's our focus. Obviously that share needs to be profitable share. And you heard our focus around some of the mobility products and the high end products. We had really good results that quarter. We're very pleased with our XPS and Latitude and mobile workstation velocity.

So I think that consolidation story continues. That's our focus. We'll see as we go through the course of the year whether we get a Win 10 bump, in terms of a refresh.

We are thinking at some point that will happen. There is a lot of interest out there in the operating system. And then with some of the Intel processor introductions as we go through the year that also gives a performance boost.

So we're optimistic about the PC market this coming year, but it's still going to be down. IDC is still predicting in minus 2 type of a market, and we'll have to see how it progresses as we go through the year.

David, do you want to give any other color on the server question around velocity?

David Goulden

Yeah, I will. Again, there are a couple of things going on in the server market. Mainstream servers is kind of the main focus. The hyperscale tends to be lumpy based upon individual companies buying or not in the

quarter. But in mainstream if you go back and you look at Q4, in total the market was flat but the real growth was in the rack-scale servers, where we're the strongest, and there we grew at over 2X the market. So in total we regained that number one unit share position, we gained 200 basis points of mainstream revenue share absolutely 600 against our closest competitor.

A couple of dynamics are going on there that are driving it. In Q4 we started to get some cross-sell synergy. We definitely saw that occurring particularly into the ex-EMC base, if I can call it that. But that's really just the start of things because that will now accelerate as we move to our new go to market structure in February of this year where we put our field forces together, and rather than just passing leads they're fully cross-quotaed on selling servers both in enterprise and in commercial. So that should help us again this year.

Now, on top of that, we've got a major new product line that we're going to be launching midyear which against should be a boost and we're excited about that.

So we see good things happening in servers, and last but not least there's a kind of industry shift that's driving towards servers as more and more parts of the IT infrastructure stack become software-defined, they have to run somewhere, that's where they run on servers and particularly running on our rack-scale servers, which is where we're really focused.

So a number of things that should help us as we go through the fiscal continue that positive trend.

Scott Wipperman

Thanks for all the detail.

Operator

Your next question comes from the line of Shannon Cross with Cross Research. Please go ahead.

Shannon Cross

Thank you.

I wanted to follow-up on the last question. We've recently met with a few of our competitors in both the PC as well as the server space. And the conversation there is price increases are being implemented. It sounded like perhaps you guys didn't follow quite as rapidly as they certainly would have liked.

So from that standpoint, I'm trying to figure out from your take what's going on or what will happen with demand, because obviously component costs are up. You need to flow some of that through. If the industry goes, then perhaps it works.

But are you a little more hesitant to try to take some of these pricing moves, or are you expecting to do that both in the servers as well as in PCs?

And then I have a follow-up, thanks.

Tom Sweet

Hey, Shannon, it's Tom. So look, it's obviously and I think the people that you've talked to and what they're saying publicly is relatively consistent in the context of there is a rising component cost environment right now.

On the client side, we see it in memory. We see it in glass and LCD panels. On the server side and the storage side, we're seeing it in SSD drives and memory.

So it's all about balance. So you're trying to adjust your pricing relative to the marketplace and relative to your thinking around what's the demand elasticity impact. So we have made a number of pricing adjustments across both product lines, client and servers.

Companies in the competition do that at a different pace depending upon inventory positions and channel inventories. And so there are a number of variables and dynamics out there. But, look, the reality is that if you're seeing, and we've seen some pretty significant cost increases in memory, for instance, and you're just not going to be able to swallow those and not adjust pricing over the long run.

Now, there's ways to adjust pricing, and whether it's a list price, whether it's how much discounting authority you're giving to your sales organization, so there's ways to sort of maneuver your way through these dynamics of a headwind from a component cost, and we'll have to see on elasticity, to be honest.

But we have a P&L to manage, and we need to make sure that we're making the right decisions for the long-term. So it's all about balancing short-term profitability pressures, for instance, because of component costs and long-term positioning around where do we want to be from a velocity perspective. And so that's the balance we're driving right now.

I think so far we've made some reasonable decisions. We'll keep watching it. We're doing weekly pricing analytics and analysis and position analytics to see how the market is and where the market is.

David, I don't know if you'd add anything, but it's clearly a rising component cost environment right now.



- David Goulden I think you said it well. This is an industry wide phenomenon. And it's certainly impacting everybody. And it's certainly, of course, impacting customers.
- Having said that, the factors I talked about before, so this is clearly a bit of a headwind to the overall growth of infrastructure. On the other hand, there are some tailwinds as well. So there's clearly a balance going on here, but we have absolutely made adjustments and we'll continue to do so as the component prices move.
- Shannon Cross Okay, great. And then, Tom, can you talk a little bit about the thought process behind share repurchase for DVMT versus debt pay down, just sort of how you think about it overall within the Dell family in terms of use of cash right now? Clearly, the VMware Dell transactions tend to work well together.
- Tom Sweet Look, Shannon, I want to be really clear on this. Our primary source, our capital allocation strategy is de-levering. So nobody should be confused about that.
- On the other hand, we continue to look at the performance of VMware and the performance of the tracker in the market and the return to our shareholders based upon some ownership percentages. And as a result of that we've had some nice alignment as VMware is out managing their share buyback programs where there's been the opportunity to align with what they're trying to do and align with what we're trying to do, which is utilize and make it a win-win I should say in the sense of VMware buying Class A shares from Dell EMC or EMC, I guess, and us then taking those proceeds and retiring Tracker and buying back Tracker.
- So we're going to continue to look at these programs. We're not going to make any commitments on breadth and depth as we go through the year. But we will continue to look at that and see if there's some opportunistic opportunities in the market to take advantage of the discount between the two securities.
- Shannon Cross Great. Thank you very much.
- Operator Your next question comes from the line of Steve Milunovich with UBS. Please go ahead.
- Steve Milunovich Thank you.
- Hey, David, on the all-flash side it seems like you've had a bit of a shift from kind of the new architecture of XtremIO to putting SSDs into your more traditional frames. And that seems to be working well. Is that still

the case and do you see that continuing for some time or does there come a time when you really kind of need to have a pure optimized all-flash architecture, more like XtremIO that you're pushing first and foremost?

David Goulden

Steve, what we've done is we have, as you correctly pointed out, taken some of our traditionally hybrid products and actually enhanced the architecture quite substantially to take further advantage of all-flash, and therefore product all-flash versions. So obviously Vmax all-Flash came out early last calendar and was a strong success, as is XtremIO. So it's really a combination of both.

What we're finding is that, for example, in the high end where we now have these two very, very competitive products. The general purpose application is actually very well suited to the Vmax All-Flash, which includes data services. The XtremIO case is well suited to things that are very DEDUP, instant copy centric. So the combination, they actually complement each other quite well.

And, of course, we've done the same thing in the mid-tier with our Unity. We're going to create all-flash version or optimize for all-flash that could accept a hard drive if anybody wanted to put one in, and we're going to do the same thing for our SD Compellent Series as well.

We believe that the vast majority of the frames in the mid-tier, certainly the higher end of the mid-tier, and the high end are all moving to this all-flash configuration. And as I mentioned, while XtremIO was built from the ground up to take advantage of all-flash, we've done significant things to the way the Vmax is architected to really take full advantage of this very fast medium.

So I actually see it as a combination of both, and I wouldn't characterize one as kind of optimized and one as not, because they've both been optimized now to take advantage of it. Of course, there are things coming along.

You'll see us have NVME technology in the market later this year. So the family continues to move forward to take advantage of new media.

Steve Milunovich

Thank you.

And then I wanted to ask about the competitive situation. One of the market research firms tracks the hardware and software sales into cloud, which for you guys I assume is mostly private cloud. And you've got Cisco, HP Enterprise and yourselves all at 12 percent. And then if you want to throw in ODMs, they're also at 12 percent. So it seems like a very

competitive, fairly fragmented market selling into mostly on-prem, which arguably could be declining.

How do you view your strategic position differentiated particularly relative to Cisco and HP Enterprise?

David Goulden

Everything gets cloud watched, Steve, these days. And I think I'm aware of the particular report which you're talking about. So first of all, cloud is a -- is not a place, it's an operating model. And the operating model can be applied on-prem or off-prem. It's really providing IT as a service. And I think everybody is going to implement some form of hybrid cloud. So it's also a combination of both.

When you look at the kind of IT infrastructure marketplace as we do -- the server, storage, network combined marketplace, about \$110 billion this year -- we see strong double-digit growth in that infrastructure being sold into private cloud and into public clouds. But the biggest piece is still a non-cloud environment, often virtualized. It's still two-thirds of the marketplace.

So we see ourselves particularly well positioned in letting people take advantage of on-prem and off-prem together with the strengths of VMware, with the Pivotal layer, and our ability to put together complete solutions like our Enterprise Hybrid Cloud or our Native Hybrid Cloud underneath it, and also being able to complement that with Virtustream that uniquely handles these mission critical workloads.

So we can go to our customers and say, hey, we've got a cloud strategy for your mission critical applications. We've got a cloud strategy for your general applications. And we've got a cloud strategy for your new cloud native applications. And that cloud strategy embraces both on-prem and off-prem solutions. So we think that's very differentiated.

So we're actually excited about how we can face off against those companies that you mentioned as we go into this cloud era as opposed to cloud place.

Tom Sweet

And, David, I would add, everything you said I would clearly agree with. But we also have the other sort of cloud model dynamics is around consumption, and pay-as-you-go, and pay-as-you-consume, and so we have multiple consumption models, financing models from pure utility models all the way to pay-as-you-consume.

And so I do think that we are also trying to ensure that as we drive these solutions, as David described, that we also position some of the economic

models that the cloud offers to ensure that our customers have full choice and flexibility.

Steve Milunovich Thank you.

Operator Your next question comes from the line of Robert Shipman with Credit Suisse. Please go ahead.

Robert Shipman Good morning. Thank you so much for hosting the call.

Maybe this is just one long question with a couple parts, but my reaction this morning was a little bit of a concern regarding margins. And I think it's somewhat knee-jerk. I heard a lot of what you said, but I just want to get a better sense of how much of the pricing and investment and OpEx impacts are decision making on your standpoint versus uncontrollable expenses, and whether or not this a little bit more of a time shifting of expenses and that ultimately your free cash flow style or whatever your internal projections are are still in line with what you thought three months ago, six months ago.

And then ultimately from a balance sheet perspective has anything changed in terms of both your desire or your ability to de-lever in terms of the size and timing of what your initial expectations were?

Thank you so much.

Tom Sweet Well, Robert, you are right. That is one very long question. So let me do it like this. Let's start with the margin conversation. Look, I think about this less as an OpEx or cost story as I think about the pricing dynamics and the mix dynamics that we continue to juggle with a pretty large set of solutions in various markets.

So if you think about coming out of Q3 into Q4, we had told you guys that we thought Q4 would be a tighter operating margin quarter. And it turned out to be. So I think we're very consistent and very transparent on how we think about the business and trying to ensure that you guys understand how we operate the business.

Clearly, we've got some pressures in component costs. We've got mixed dynamics happening as we balance growth with profitability. And it's our job to sort of balance that across a set of portfolios.

So I think that we'll continue to make the right decisions around velocity at the top versus gross margin dollar delivery, which ultimately translates into operating income. But there will be some fluctuations on that as we go from quarter to quarter.

We are extraordinarily focused on cost and cost structure. So we continue to be driving aggressively against the synergy targets that we laid out.

I will also tell you, though, that we have made some decisions to invest back into the business, things like sales force coverage, expansion of our CSB model, and to the next set of countries, expansion of different solutions, building our service provider support models.

And so there are a number of investments that we think are the prudent things for the long term to do. And we'll continue to make direct decisions for the long term here as a company.

And so, look, I mean yes, margins were slightly lower. You also have to remember that they were a little bit higher in Q3, as David highlighted, by the fact of the timing of the transaction, right. So we closed the EMC transaction on September 7th. So we picked up only a portion of the quarter's sort of run rate operating expense, and picked up a lot of their revenue and margin given the hockey stick that they have traditionally had at the end of the quarter. So there are timing dynamics there, too, that you have to think your way through.

So, look, I mean we're going to continue to work at this, we're going to continue to make sure we made the right decisions and we're going to continue to make sure we drive the right profitability models to drive cash flow, which gets into your second question around free cash flow and are we different now than what we thought six or nine months ago.

The answer is probably yes to a certain extent, but it's all about how do we balance and make sure that we de-lever properly and efficiently, which we're extraordinarily committed to and making sure that we drive the right business investment decisions along with that deleverage strategy. So the world is dynamic. It continues to evolve and change. We're going to continue to evolve and change our decisions as we go forward.

But don't be confused, we will de-lever the balance sheet. That's our focus. We'll do that as promptly and efficiently as we can, while we make the right investment decisions for the business.

So, look, I actually feel like the team has done a pretty good job navigating the first part of this integration, knowing that we've got a lot more work to do and that the markets are going to continue to move around on us a little bit, given just the competitive nature and the changing IT consumption models that are out there.

So overall, Robert, I think the team did a reasonable job for the quarter. More to do, but I'm reasonably pleased with where we are as we step out of FY '17 and come into FY '18.

Thanks, Rob.

Robert Shipman Thank you so much.

Operator Your next question comes from the line of David Phipps with Citigroup. Please, go ahead.

David Phipps Hi, thanks for taking my question.

Could you talk about the seasonality of the business as we look forward on a quarterly basis or what historically given all the changes in business from acquisitions and from the divestures? And then as a quick follow-up, can you qualitatively walk us through a bridge from the margin of EBITDA from the third quarter at 13.3 percent to the 10.6.

But qualitatively what were some of the big factors? Was the onetime payment a big factor? Was the acquisition of business, divesture of high margin business? Were there any mix changes, some of the component prices? I think that would be helpful to investors. I'm getting a lot of IDs on that right now. Thank you.

Tom Sweet Yeah, look, hey from a seasonality perspective, look, I actually think we're trying to work our way through what the new seasonality looks like, to be a bit honest.

I mean if you remember legacy Dell, I'll say it like this, coming out of Q4 would seasonally be down in Q1 on a revenue perspective. It tended to be probably the weakest quarter of the year in terms of revenue velocity as you come out of the buying season, from a consumer perspective and the end of the year budget flush from a commercial perspective. I think legacy EMC also had a relatively weak -- has a relatively weak Q1 and then builds through the year.

So I think at a macro level that's what we expect to see. I think linearity within the quarter is going to be a bit interesting. EMC traditionally ran a pretty heavy end of quarter linearity within the quarter, meaning that most -- a lot of their revenue came through in the last two to three weeks of their calendar quarter.

So now that we've shifted to a fiscal quarter the dynamics of when does that demand show up, and how does it show up is something we're still working, still trying to ensure that we understand the new patterns that are

going to evolve, given sales compensation models, given customer buying habits.

And so I tend to think about it like that. But I do expect that -- we don't do forecasts and we don't do guidance, but I think there are some historical seasonality patterns that you would expect to see in Q1, which had traditionally been a softer quarter.

In terms of EBITDA margins, from Q3 to Q4, where you see it from 13.3 to 10, you've got to think about that in the context of some dynamics around the operating expenses that David referred to. That's probably 60 to 70 basis points of that change. You did have some pricing pressure, which is probably another 120 basis points of that change.

And so, look, I mean there's dynamics as we go from Q3 to Q4. It's our job to balance those out over time, which we'll continue to do. So I'm not going to do an exact bridge for you. But we're aware of the dynamics and we'll work our way through those as we go forward.

David Phipps            So just to clarify, so it was the -- the settlement, is that part of the EBITDA mix, or your one-time customer? So you kind of called out 180 basis points out of the 270. So we think the other 90 is from one-time factors?

Tom Sweet                Look, I mean, again, if you look at the adjusted EBITDA, clearly we did have the settlement generally would not have been there. It was already reserved for. So it's not -- it wouldn't have affected current earnings. So I called out -- I gave you the two largest components of that and then also some mix dynamics. And so, look, I mean those are sort of the bridges that I would take you through, plus some of the WFR activity, which is in there, as well.

David Phipps            Okay. Thank you.

Operator                 Our final question will come from the line of Dan Fuss with Morgan Stanley. Please, go ahead.

Dan Fuss                 Great, thanks for the question.

First, on the storage side, can you just speak to what you're seeing in the market and to the extent sales have been weaker, has this been a function of customers deferring purchases, moving to competitors, evaluating new technologies, just any color there would be helpful.

David Goulden            Dan, thanks, this is David. Let me say that there are a number of things that are happening in our numbers, particularly in the calendar Q4, which

are impacting the revenue results that people are reporting and it's actually impacting the market. We've actually had a fair impact on the storage market ourselves. Let me explain what's happening there.

So first of all, as we moved into Dell we took a policy to really focus upon working capital efficiency. That means we're going to have a much bigger backlog jam at the end of any period than we would have done inside of EMC.

But then also we moved our fiscal from December to January. So now if you think about where things were at the end of December, there was no real focus upon optimizing what the backlog was. So we had a significant increase in our backlog in December for those two factors versus as a year ago, that impacted our reported results, as people like IDC might look at them, and actually impacted the market.

To give you a flavor for how we saw overall demand in the fiscal quarter, if we could actually have gone back and created a true comparison year-on-year, we saw demand in the fiscal quarter down in the low to mid-single digit range, which is actually a lot better than many of our traditional storage competitors who were seeing double digit declines.

Now, to answer your question about what dynamics we're seeing in the marketplace, we're seeing a couple of things. We are seeing softness in the high end of the market and that seems to have continued for a little bit of time. We're actually seeing growth in the mid-tier marketplace. We're also seeing a significant growth in all-flash. And as you mentioned, and as I mentioned, we are now a \$4 billion run rate player, our share in all-flash is higher than it is in external storage in total. So as the market shifts towards all-flash that should be good for us vis-a-vis others.

And what we're seeing is in the marketplace customers are still making tactical decisions. There's a lot of work going on to look at IT transformation and future architecture. So the customers who haven't made those decisions yet in terms of what their IT transformation strategy is are still doing a very much buy what they need and no more approach, different from how they were buying a couple of years ago. The customers who are moving forward with transformation are making longer-term decisions. But that's still a small piece of the marketplace.

So you've got a number of factors. I would comment that the move to all-flash is actually not deflationary for the storage marketplace, because what happens is that all-flash is actually more expensive, but then with data services, unification, compression, et cetera, you get the same dollar per gigabyte, effectively, as you do with a hybrid system. So that's one of the things that people talk about that we don't see being a factor.



So we had an impact on the marketplace as external people look at it, based upon how we closed our quarter. There is still some softness in the marketplace, even with that factored in. And then you get back to this combination of high-end, plus people making tactical shorter-term decisions as the market starts to slowly move towards a transformation agenda.

The customers who are in this transformation mode are making big, multi-year strategic purchases. So as more of that happens, then I think that could be a positive thing going forward.

But those are the dynamics that we're seeing in the marketplace. I hope that gives you a few points of flavor to think about.

Dan Fuss                      That was great. Just one quick follow-up. The other thing that we've seen some of your competitors discuss in the market on the all-flash side, obviously, you're faced with an environment of rising NAND prices now. How is that going to impact your sales of all-flash arrays and traditional drive systems from both your perspective and then from the customer's?

David Goulden                I think, as we talked about on one of the other questions, obviously for solid state drives, and more importantly for DRAM, we see impacts on DRAM price increases being more than SSDs, and actually storage and therefore servers are more impacted by DRAM and storage arrays are relatively less impacted by that relative price increase.

I still think that the value proposition for an all-flash system holds even in a slightly inflationary environment, because you get so much additional performance from an all-flash system. You can do things with it you just can't do with a traditional storage-based system.

So I don't see that momentum particularly changing. It might slow a little bit, but I still think customers when they're looking at these purchases and they're thinking of what they're going to do with a storage system for the next three or four years are still going to move predominantly to all-flash.

Dan Fuss                      Great. Thank you.

Tom Sweet                     Before we close, Rob, it's Tom. I wanted to go back and correct something I said when Rob and I were talking about the EBITDA walk because I grabbed the wrong number.

So as we look at quarter on quarter EBITDA walk, I would say that roughly we've got about 250 basis points of OpEx pressure coming from the -- OpEx change coming from where we picked up the EMC legacy,

and from a quarter in Q3 to a full quarter in Q4. So that's a big piece of that change. We're actually working on OpEx to bring that back down over the course of the coming year.

Then we also had some cost variances and pricing variances which roughly make up about 70-80 basis points offset by some favorable mix. So that's sort of the dynamic we saw going from Q3 to Q4, but I wanted to clarify that.

Robert Williams I appreciate that clarification, Tom.

That wraps up the Q&A.

As a reminder, we have our analyst meeting, our investor meeting in New York on April 5th. This is a two-hour meeting and it will focus on strategy and integration efforts and capital structure. We're going to dedicate half of the time to Q&A.

This is an invitation only meeting due to limited availability. So please contact us if you're interested in attending.

And, finally, I appreciate you joining the call. We're available to take additional Q&A. Thanks.

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