

Dell Technologies Inc.

Takeaways from Management meetings at CES

Reiterate Rating: BUY | PO: 82.00 USD | Price: 79.31 USD

Mgmt. remains confident in the AI opportunity

We hosted investor meetings at the Consumer Electronics Show in Las Vegas (CES 2024) with Paul Frantz, Zak Broderick and Reilly Smitherman from investor relations at Dell. Mgmt. is confident in the AI secular trend and sees continued momentum in the ISG business given an increase in orders and a tripling of the pipeline for AI servers last qtr. Although component pricing can create some near-term pressure, Dell has several levers including pricing and demand shaping to maintain margins. The company is not looking for any large transformative deals. We maintain our Buy rating on higher capital returns, AI tailwinds, and improving FCF benefiting from negative cash conversion cycle as PC revenue continues to grow.

Training vs inference servers

Dell expects AI to benefit both training and inference servers in the early stage of the adoption cycle. The company noted inference servers will be more significant with more widespread demand later in the cycle as companies deploy more inference at the edge. There has been no change in GPU availability since earnings, and the lead time is still at 39-weeks. Enterprises and high-end consumers are still going through the learning phase of the adoption cycle for both AI servers and AI PCs.

AI PC uptake will depend on silicon, and applications

Although copilot can assist users with their workloads, the quality of the copilot's output is also determined by the quality of the input data. Copilot's capabilities will also depend on the type of silicon used. Mgmt. believes it is too soon to tell whether the silicon or the hardware is the main driver for AI PCs. It remains too early to determine the exact price and configuration of AI PCs, but they will be a component of acceleration (GPU/APU) and higher memory (8/16GB likely moves up to 32GB). Mgmt. also expects the CSG business to continue to benefit from refresh of the COVID installed base which might also be another catalyst for PCs. Dell remains strong in its attach of accessory and services to PCs. Silicon diversity can help with balancing power-performance. Price elasticity in PC continues to manifest in the low end and consumer markets but Dell remains focused on profitable share.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.22	7.61	6.66	7.20	7.85
GAAP EPS	6.25	3.24	3.88	4.90	5.73
EPS Change (YoY)	27.2%	22.3%	-12.5%	8.1%	9.0%
Consensus EPS (Bloomberg)			6.66	7.09	7.70
DPS	0	1.32	1.48	1.63	1.79
Valuation (Jan)					
P/E	12.8x	10.4x	11.9x	11.0x	10.1x
GAAP P/E	12.7x	24.5x	20.4x	16.2x	13.8x
Dividend Yield	0%	1.7%	1.9%	2.1%	2.3%
EV / EBITDA*	10.0x	8.9x	9.1x	7.3x	6.9x
Free Cash Flow Yield*	12.7%	0.9%	7.8%	8.7%	9.5%

* For full definitions of *IQmethod*SM measures, see page 5.

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12645626

Timestamp: 16 January 2024 05:00AM EST

16 January 2024

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Stock Data

Price	79.31 USD
Price Objective	82.00 USD
Date Established	30-Nov-2023
Investment Opinion	B-1-7
52-Week Range	35.96 USD - 80.27 USD
Mkt Val (mn) / Shares Out	59,245 USD / 747.0 (mn)
Free Float	97.9%
Average Daily Value (mn)	376.07 USD
BofA Ticker / Exchange	DELL / NYS
Bloomberg / Reuters	DELL US / DELLN
ROE (2024E)	NA
Net Dbt to Eqty (Jan-2023A)	NA
ESGMeter TM	High

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iQprofileSM Dell Technologies Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.8%	16.1%	14.5%	14.3%	13.8%
Return on Equity	152.8%	NM	NM	NM	162.5%
Operating Margin	7.7%	8.4%	8.5%	8.6%	8.6%
Free Cash Flow	7,511	562	4,605	5,133	5,621

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.1x	0.6x	1.5x	1.6x	1.6x
Asset Replacement Ratio	0.6x	1.0x	0.7x	0.6x	0.5x
Tax Rate	18.8%	20.1%	19.5%	24.0%	24.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	310.9%
Interest Cover	4.9x	7.1x	5.5x	8.7x	9.5x

Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	101,228	102,301	88,343	92,637	95,422
% Change	16.7%	1.1%	-13.6%	4.9%	3.0%
Gross Profit	22,684	23,427	21,163	22,170	22,710
% Change	6.8%	3.3%	-9.7%	4.8%	2.4%
EBITDA	9,660	10,779	10,592	13,262	13,933
% Change	11.7%	11.6%	-1.7%	25.2%	5.1%
Net Interest & Other Income	(1,724)	(1,465)	(1,429)	(1,324)	(1,314)
Net Income (Adjusted)	4,923	5,735	4,906	5,081	5,265
% Change	31.5%	16.5%	-14.5%	3.6%	3.6%

Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	11,768	9,594	8,927	10,130	10,759
Depreciation & Amortization	4,551	3,156	3,706	5,264	5,703
Change in Working Capital	1,922	(3,188)	(1,293)	(1,625)	(1,905)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(7,934)	(5,997)	(4,003)	(5,705)	(5,917)
Capital Expenditure	(2,796)	(3,003)	(2,733)	(2,931)	(3,019)
Free Cash Flow	7,511	562	4,605	5,133	5,621
% Change	-19.5%	-92.5%	719.4%	11.5%	9.5%
Share / Issue Repurchase	(1,504)	(3,276)	(2,178)	(2,800)	(2,400)
Cost of Dividends Paid	(2,240)	(964)	(1,081)	(1,149)	(1,202)
Change in Debt	(6,298)	2,654	(3,641)	(1,000)	(1,000)

Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	9,477	8,607	6,109	6,293	7,312
Trade Receivables	12,912	12,482	9,883	10,649	11,073
Other Current Assets	22,568	21,262	20,456	22,045	23,543
Property, Plant & Equipment	5,415	6,209	6,419	6,968	7,533
Other Non-Current Assets	42,287	41,051	40,055	40,055	40,055
Total Assets	92,659	89,611	82,922	86,010	89,516
Short-Term Debt	5,823	6,573	6,961	6,961	6,961
Other Current Liabilities	50,320	45,081	41,598	42,316	42,337
Long-Term Debt	21,131	23,015	18,877	17,877	16,877
Other Non-Current Liabilities	16,965	17,967	17,481	17,690	18,025
Total Liabilities	94,239	92,636	84,917	84,844	84,200
Total Equity	(1,580)	(3,025)	(1,995)	1,165	5,316
Total Equity & Liabilities	92,659	89,611	82,922	86,010	89,516

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

IT Hardware

Company Description

Dell operates two primary business units: Infrastructure Solutions Group (ISG, provides servers, storage, hyper converged infrastructure, and networking), and Client Solutions Group (CSG, provides desktops, notebooks, workstations and displays). It also reports revenues derived from the external VMWare commercial partnership under 'Other' revenues.

Investment Rationale

Our Buy rating is based on broad product portfolio, growth faster than the market, continuing share gains, and opportunity to grow margins over the next several years on higher mix of storage and mix shift to premium configurations in PCs and servers, which offset risks including a slowing global economy, high financial leverage which limits buybacks, and limited shareholder voting rights.

Stock Data

Average Daily Volume 4,722,302

Quarterly Earnings Estimates

	2023	2024
Q1	1.84A	1.31A
Q2	1.68A	1.74A
Q3	2.30A	1.88A
Q4	1.80A	1.73E

Abbreviations

IR: Investor Relations

CES: Consumer Electronics Show

PC: Personal Computer

CSG: Client Solutions Group

ISG: Infrastructure Solutions Group

L/T: Long-term

N/T: Near-term

DRAM: Dynamic Random Access Memory

NAND: Not AND memory

FCF: Free Cash Flow



Price objective basis & risk

Dell Technologies Inc. (DELL)

Our PO of \$82 is based on approximately 11x our C24 EPS estimate of \$7.20. Our target multiple compares to median 5x of historical range 3x-8x for Dell since it returned to the public markets in 2019. Dell went private in 2013 and prior to that the company had a very different structure. As such, we do not believe earlier historical trading multiples are meaningful. In our opinion, a multiple higher than the historical range is warranted given improved storage portfolio, lower financial leverage and it balances opportunities to invest in core areas of growth, with ongoing weak macro and component shortages.

Downside risks: faster-than-expected slowdown in the global economy, which could prove to be a headwind to revenue growth, faster-than-expected strengthening of the U.S. dollar, trade war with China, and higher-than-expected tariffs, Dell not being able to source needed processors from Intel, new sales teams not being able to ramp as expected, and unexpected share loss to competitors.

Upside risks: faster-than-expected revenue growth and market share gain, faster mix shift to storage and premium PC and server configurations, which can drive upside to margins, faster-than-expected ramp of new sales teams, and component shortages normalizing more quickly than expected, which can drive upside to cash flow.

Analyst Certification

I, Wamsi Mohan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - IT Hardware and Technology Supply Chain Coverage Cluster

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	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc.	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
NEUTRAL				
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
UNDERPERFORM				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya

US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Vizio	VZIO	VZIO US	Wamsi Mohan

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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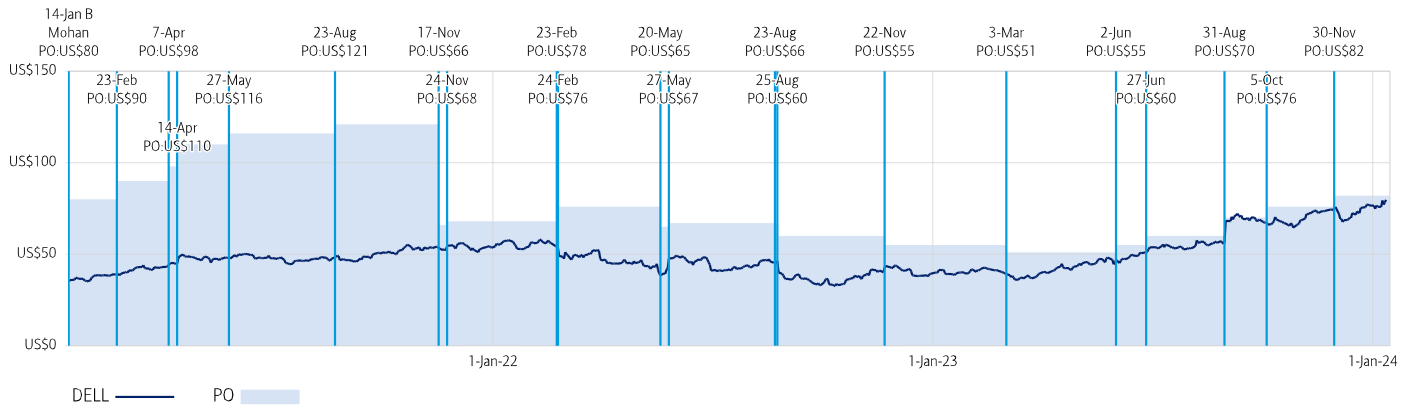
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Dell Inc. (DELL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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