

Flash Comment — December 14, 2023

IT Hardware & Communications Networking

Dell Technologies Inc. (DELL)

DELL: CoreWeave Purchases 'Thousands' of PowerEdge XE9680 AI Servers (NVDA H100 GPUs)—Quick Thoughts

Our Call

Dell highlights CoreWeave purchase of *thousands* of PowerEdge XE9680 AI-optimized servers (\$200k+ per server vs. our ~\$11k blended Dell server ASP est. in 3Q23).

Initial Thoughts

What's New: Given the ongoing focus on Dell's positioning / participation in large scale AI deployments, we thought we would quickly highlight this morning's announcement that CoreWeave, a large scale specialized GPU cloud provider (NVIDIA a significant investor), has purchased *thousands* of Dell PowerEdge XE9680 AI-servers (NVIDIA H100 Tensor Core GPUs).

Reminder - Significant AI Backlog; Much Larger Pipeline: Dell exited the Oct '23 (F3Q24) quarter with a reported AI-optimized server backlog at ~\$1.6B (+2x q/q), while also reporting that they saw their AI pipeline expand by 3x during F3Q24. With \$500 million in AI server deliveries in F3Q24, we would est. ~\$1.3B in incremental backlog build during F3Q24.

While some were confused by the \$1.6 billion backlog vs. reporting a \$2.0 billion backlog at their early-Oct. Analyst Day (i.e., backlog exiting Aug.), it is important to note that Dell's AI systems really did not become available until late-F2Q24 (July). As noted above, we think investors could consider Dell's AI server ASPs (\$/unit) at upwards of \$200k vs. our est. that Dell's blended server ASP (\$/unit) stood at ~\$11k in F3Q24. We est. Dell saw a blended server ASP at +15%-20% q/q in F3Q24.

Dell's AI Server Portfolio: Dell's PowerEdge AI server portfolio consists of the ([see here](#)): **1. PowerEdge XE9680** (flagship): 8x NVIDIA H100 or A100 GPUs, We think the XE9680 makes up the largest portion of Dell's AI server backlog. **2. PowerEdge XE9640:** 4x NVIDIA H100 GPUs; also supports 4x Intel Data Center Max OAM GPUs. **3. PowerEdge XE8640:** 4x NVIDIA H100 GPUs. **4. PowerEdge R760a:** Supports NVIDIA, AMD, or Intel accelerators.

We would highlight that Dell's PowerEdge R760a specs provide pricing on various GPU options - standard config. w/ NVIDIA L4 PCIe GPU at a ~\$4,200 list price, while the NVIDIA H100 (80GB; double-wide 300-350W) GPU is price at ~\$57,700. The NVIDIA L40S GPUs have a list price at ~\$17,100. AMD's new MI300X GPUs are not yet listed on Dell's website.

Dell's R760a specs also highlight the option of licensing NVIDIA's AI Enterprise software at \$4,500/yr per server (add'l \$1,100 for 1-yr. support).

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Dell Technologies Inc. (DELL)

Overweight

Price: \$69.87/Price Target: \$85.00

Market Cap: \$49,720 MM

Note: Pricing as of 12/13/2023

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.

Investment Thesis, Valuation and Risks

Dell Technologies Inc. (DELL)

Investment Thesis

Our Overweight rating on Dell reflects our positive view on the company's de-leveraging execution and now pivot to a significant capital return story (share repo + dividend). We are also positive on Dell's ability to leverage its supply chain economies of scale. We think Dell presents a long-term attractive risk/reward profile given its broad-based portfolio and software-hardware depth, which favorably positions it to capitalize on shift toward a software defined hybrid multi-cloud datacenter.

Target Price Valuation for DELL: \$85.00 from NC

Our price target is \$85, which reflects a consistent ~10-11x P/E on our calendar 2025 EPS estimate. This represents a slight premium to the peer group given our positive view of Dell's significant capital return story + increasing confidence in upside potential into \$8.50/sh.+ range.

Risks to Our Price Target and Rating for DELL

Risks to Dell include: (1) Execution risks / technology transitions; (2) competition / pricing pressure; (3) mature / lower-growth end markets susceptible to macro-driven downturns; and (4) corporate ownership structure (three classes of common stock).

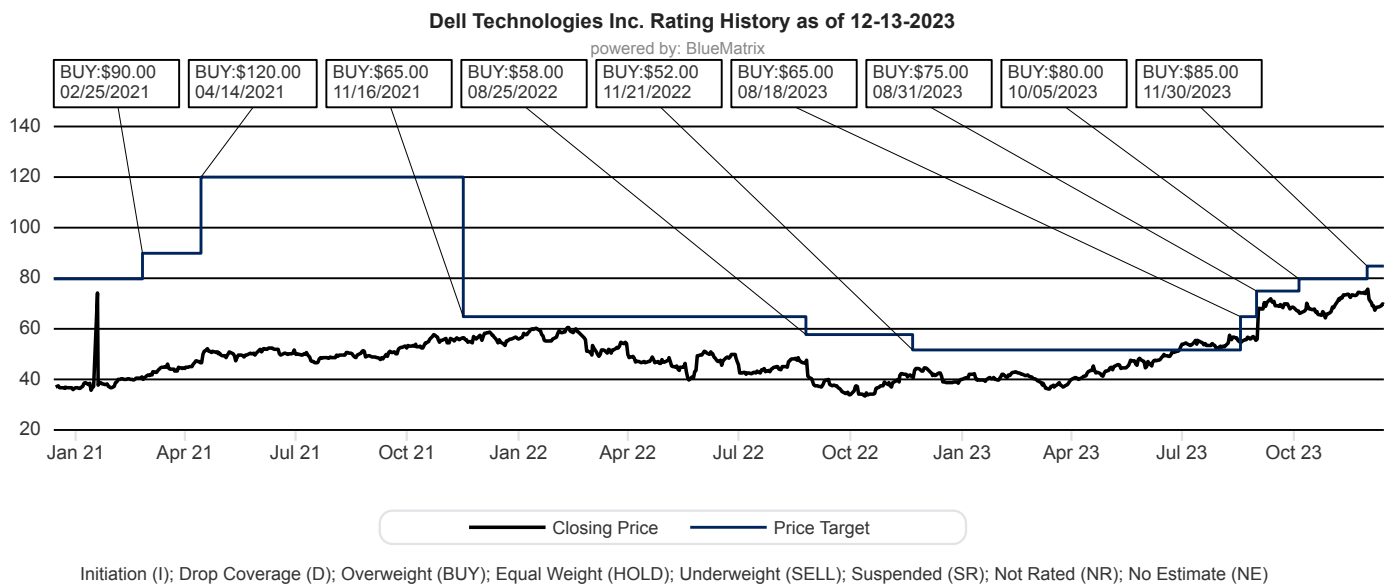
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As of December 13, 2023

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