TRANSCRIPT

DELL – Q3 2027 Dell Technologies Inc Earnings Call

EVENT DATE/TIME November 24, 2026 9:30PM GMT

CORPORATE PARTICIPANTS

Paul Frantz Dell Technologies Inc - Head of Investor Relations

Jeff Clarke Dell Technologies Inc - Vice Chairman and Chief Operating Officer

David Kennedy Dell Technologies Inc - Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Mark Newman Sanford C Bernstein & Co LLC - Analyst

Amit Daryanani Evercore Inc - Equity Analyst

Ben Reitzes Melius Research LLC - Equity Analyst

Wamsi Mohan BofA Merrill Lynch Asset Holdings Inc - Analyst

Katherine Murphy Goldman Sachs - Analyst

Erik Woodring Morgan Stanley - Analyst

Joseph Cardoso J.P. Morgan - Analyst

David Vogt UBS AG - Analyst

Tim Long Barclays Services Corp - Equity Analyst

PRESENTATION

Operator:

Good afternoon and welcome to the fiscal-year 2027 third-quarter financial results conference call for Dell Technologies, Inc. I would like to inform all participants this call is being recorded at the request of Dell Technologies. This broadcast is a copyrighted property of Dell Technologies, Inc. Any rebroadcast of this information in whole or part without prior written permission of Dell Technologies is prohibited. Following prepared remarks, we will conduct a question-and-answer session. If you have a question, simply press star, then one on your telephone keypad at any time during the presentation.

I'd like to turn the call over to Paul Frantz, head of investor relations. Mr. Frantz, you may begin.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, everyone, for joining us. With me today are Jeff Clarke, David Kennedy, and Tyler Johnson. Our press release and presentation are on our IR website. The presentation includes additional content that complements today's discussion. During this call, we will refer to non-GAAP financial measures, unless we say otherwise. And you can find reconciliations to the most comparable GAAP measures in our press release and presentation. Growth rates are on a year-over-year basis, unless otherwise noted. We will also make forward-looking statements, based on our current expectations. These statements speak only as of today. And actual results could differ materially because of risks and uncertainties described in our presentation and SEC filings, including our most recent Form 10-K and Form 10-Q. We assume no obligation to update them.

Now, I will turn it over to Jeff.

Jeff Clarke - Dell Technologies Inc - Vice Chairman and Chief Operating Officer

Thanks, Paul. And, thanks, everyone, for joining us. I am proud of how our team performed, delivering another record quarter, with strong execution and growth across the business. Revenue was a record $54.9 billion, up 103%. Diluted earnings per share was a record $9.45, up 265%. We generated $4.5 billion of cash flow from operations and returned a record $4.9 billion to shareholders. Our proven operating model, competitive advantages, speed to market, and ability to drive scale are all delivering compounding benefits. Our modernization efforts are driving significant operating leverage. Operating expenses were 7% of revenue, the lowest in our company's 42-year history. ISG, our most profitable business, has grown significantly over the past several years and drives the vast majority of our growth and profit. In fiscal '24, the year we began selling AI servers, ISG generated 38% of our revenue. Over the last four quarters, that contribution has increased to 68%. The trend is even more pronounced within operating income, where ISG's contribution has gone from 54% to 83%. And I expect the trend to continue into our next fiscal year. Over the same period of time, ISG's operating income rate expanded 2 points. We achieved that expansion, despite the tremendous growth in AI servers, supported by strong growth in Dell IP storage, the insatiable demand for compute, and the efficiencies

generated by our modernization efforts. Technology is driving material business outcomes. And the demand for AI infrastructure and data-center modernization remains strong.

As AI infrastructure becomes more complex, our competitive advantage strengthens and our momentum accelerates. Our engineering and design capabilities are differentiated. We develop purpose-built, bespoke solutions, optimized for each customer's specific requirements, often working through many design iterations that contemplate not just the infrastructure but the data center as a whole, designed for power, cooling, efficiency, and software. Our technical teams are leveraging AI and the proprietary knowledge we've built over the last 13 quarters to streamline and accelerate the design work, allowing our engineers to deliver complex designs in hours and quickly work through a large number of iterations. Our procurement capabilities and world-class supply chain are differentiated, especially in today's constrained supply environment. In manufacturing, we fully test the complete solution at L11 and beyond, including full rack power-up, thermal compliance, and scale-out and scale-up network validation, before anything ships. Our deployment-services team can stand up a rack within six hours of delivery. Our on-site support services help customers achieve 99%-plus utilization, with fewer spares than our competitors. Together, these capabilities get infrastructure live faster.

On large deployments, we can deliver time to first token four to six weeks faster than competitors, while providing industry-leading total cost of ownership. That allows customers to convert backlog into revenue sooner and more reliably. And, of course, innovation remains central to our advantage. In Q3, we were the first OEM to ship a fully liquid-cooled networking rack, extending our first-to-market leadership. We are now the only OEM shipping DLC 100% scalable units across compute, accelerators, and networking, with a standard L11 rack design. And we will be shipping storage liquid-cooled L11 racks in the near future.

The proof point is in our order momentum: $180 billion over the past four quarters, with a majority of our new orders, based on NVIDIA's Vera Rubin NVL72. We also led the industry, with the launch of our AMD-based PowerEdge R9815 and R9825 platforms, delivering 238 world records in industry benchmarks in the R9825 alone. At the same time, AI technology continues to advance rapidly. Models have progressed from one-shot responses to reasoning to recursive capabilities and, now, agentic systems that act, manage, and orchestrate workloads. As customer zero, we are moving from using AI as a tool and an advisor to using AI as an operator. The first wave of AI answered questions and delivering productivity improvements of 10% to 40%. In the use cases, we are seeing agents drive productivity improvements an order of magnitude better, 10x or more, by accelerating work and putting intelligence directly in front of decision-makers. Realizing those outcomes starts with strong leadership, companies must simplify, standardize, automate processes before digitizing them or augmenting them with intelligence. They must also modernize their data architectures, including semantic data layers that provide context around their data and intellectual property. Agents generate significant token demand, increasing the need for modern, disaggregated infrastructure across AI and traditional servers, Dell IP storage, data-management solutions, and networking. While enterprise traction is accelerating, the vast majority of customers remain in proof-of-concept and tool-adoption phase. The broader agentic-adoption opportunity is still ahead of us.

Overall, AI and the quest for intelligence is expanding our TAM across our portfolio. This is no longer simply about IT budgets. Data centers are becoming value centers, driving growth, productivity, speed, and intelligence across the enterprise. Now, let's start with the results: Starting with ISG, revenue increased 198% to a record $42 billion. Operating income was $7.1 billion, with an operating income rate of 17%. In AI servers, demand continues to accelerate. In Q3, we booked $60.2 billion in AI orders and recognized a record $22 billion in AI-server revenue. We exited the quarter with a record $132.3 billion of AI-server backlog. Behind every customer engagement and every order is a rigorous due diligence process resulting in a fully vetted backlog. Every AI order is vetted for access to capital, end-customer quality, trade and export compliance, and access to land and power. As I mentioned, each design is bespoke, optimized through multiple iterations with the customer. Through this tight collaboration, we know our customers well and have a high conviction that our backlog will convert to revenue. Our pipeline grew sequentially and remains multiples of our backlog, again, after converting $180 billion over the past four quarters. Additionally, our customer base and opportunity pipeline continues to diversify. We now have over 7,500 Dell AI Factory customers. Our customer base spans neoclouds, sovereigns, and enterprises. Within the neocloud segment, we remain highly selective about the partners we work with and the end customers supporting their demand. The global opportunity is expanding, as more data centers are built outside of the United States. Across nearly every top country around the world, there are two to three sovereign projects. Enterprises were the fastest-growing portion of our opportunity-pipeline expansion, sequentially, providing further evidence that enterprise-AI adoption is gaining traction. Internally, we continue to invest in our capabilities, ensuring we maintain our competitive advantage, deliver value for our customers, and position for the substantial opportunity ahead.

Moving to traditional servers, revenue was up 235%, as demand remained exceptionally strong, supported by multiple growth drivers that are expanding our TAM. Enterprises increasingly recognize that compute is critical to both the growth and the operations of their business. They are buying more compute to accommodate growing workloads, refreshing their installed base and modernizing their data centers to free up power and space to be positioned for the AI era. Sequentially, we are seeing increased demand for CPU-based compute to support AI and inference workloads. Higher content continues to be a long-term secular tailwind. Servers contain more compute value, with higher core counts, greater memory, and storage capacity, increasing the value of each system. Underneath all of this, cyber resilience and security are also driving refresh activity. Much of the installed base requires new hardware to meet current security and performance requirements. These needs cannot always be addressed through a software patch. We are executing very well in a supply-constrained environment. And we expect to gain share this quarter.

Turning to storage, revenue was up 24%, as strong demand for our Dell IP portfolio drove revenue growth and improved profitability. Storage has always been critical, as enterprise workloads and data grow. In the AI era, it is becoming even more important, as data grows at exponential

rates. Our storage opportunities are also expanding, as AI evolves. AI workloads are creating new demand drivers like Key-Value caching, context layers, and agents that need to store data, memory, and state. For an enterprise, its data is its intellectual property. But siloed and without context, it's just data. Agents need that context. And that's why we've expanded the Dell AI Data Platform with a unified semantic layer and an enterprise knowledge graph. Together, they give nearly every application and agent the same trusted current view of the business without rebuilding context from scratch every query. This lowers token consumption, cuts compute costs, and speeds time to production, all while keeping the customer's most sensitive data governed inside their own data center. Our storage offerings continue to expand. Our Dell IP portfolio is resonating with customers. And we expect to gain share this quarter. Demand for Dell IP storage grew for the seventh consecutive quarter. And our Dell IP mix is at an all-time high. Demand remained broad-based, with exceptional strength in North America. We also continue to see strong demand for unstructured storage supporting AI workloads, with triple-digit demand growth for the third consecutive quarter. PowerStore delivered a record demand and has now grown double-digit or better for 10 consecutive quarters. PowerFlex grew double digits for three consecutive quarters. And data protection delivered double-digit growth. Storage growth, greater scale, the mix shift to Dell IP, and meaningful sequential improvements in profitability at the solution level continue to be significant drivers for ISG profitability. Our Dell IP performance and accelerating pace of product development give us confidence in the opportunity ahead.

Turning to CSG, revenue grew 3% in a softer PC unit market, as the industry adjusts to higher price points. Customers are prioritizing their budgets near term to servers and storage, electing to defer some PC-related refresh. The install base continues to age, building deferred demand that we expect to refresh in the future.

In closing, we continue to deliver a record year, with record revenue, EPS, cash generation, and capital to return to shareholders. The demand environment we see today remains strong and has not changed. Sophisticated customers are planning years in advance, giving us better visibility into future demand. AI-server demand continues to accelerate, supported by a broadening customer base and expanding global opportunity. Our record $132.3 billion of AI-server backlog has been fully vetted through our rigorous due-diligence process. Traditional server demand remains strong, benefiting from traditional workload growth, an aging install base, heightened security requirements, and the growing AI-inference demand. Dell IP storage continues to grow and drive incremental profitability. As AI infrastructure becomes more complex, our competitive advantages are more pronounced and our TAM expands, increasing the need for modern, disaggregated architecture. Infrastructure demand continues to outpace supply.

As we look into next year, the gap between component supply and end-user demand continues to widen. Our world-class supply chain is well-positioned to navigate these constraints and deliver for our customers. Our operating model, speed to market, growth, and ability to drive scale are producing compounding benefits across the business. Together, these drive significant cash flow, shareholder return, and long-term value for our shareholders. I am proud of the team's performance and expect the momentum to carry into next year. With that, let me turn it over to David to walk through the financials and our outlook.

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Thanks, Jeff. The team executed exceptionally well, driving record revenue, record EPS, and record shareholder returns. These results demonstrate the strength of our operating model, which is driving growth, expanding profitability, and generating significant cash flow. Total revenue was up 103% to $54.9 billion. Gross-margin dollars grew 105% to $11.7 billion. Gross-margin rate was 21.2%, up 10 basis points.

Operating expenses were up 20% to $3.8 billion, primarily due to variable compensation tied to our outperformance. We continued to drive significant operating leverage, with OpEx down 480 basis points to 7% of revenue. Operating income grew 213% to $7.8 billion. Operating income rate increased 490 basis points to 14.2% of revenue, driven, primarily, by scale and pricing discipline, despite the impact of record AI mix. Net income was up 245% to $6.1 billion, primarily driven by strong operating income. Diluted EPS increased 265% to a record $9.45.

Moving to ISG, ISG delivered record revenue of $42 billion, up 198%, marking the 11th consecutive quarter of double-digit or better revenue growth. AI-server momentum continued to accelerate, with $60.2 billion in orders, our second quarter with orders above $60 billion; a record $22 billion in revenue; and $132.3 billion in ending backlog -- all of which has been subject to our rigorous review process. To expand on Jeff's comments, every customer goes through a credit oversight and due-diligence process, supported by DFS' risk-management team. We evaluate the company, its financial capacity, and its underlying end-user contracts. We run the due-diligent process at two key points when we agree the purchase order and, again, before production begins -- helping us actively manage risk. When we use DFS financing, it is selective and short term, bridging the customer from purchase order to cluster go-live. Traditional server and networking revenue was a record $15 billion, up 235%. Storage revenue was $4.9 billion, up 24%, with strong demand across our Dell IP portfolio, driving revenue growth and significant margin contribution. Our margin-rich Dell IP storage demand has grown for seven consecutive quarters. And our Dell IP mix is at a record high. ISG's Q3 operating income surpassed what we delivered in FY '26 and was a record $7.1 billion, up 308%, marking the 10th consecutive quarter of double-digit or better growth. Operating margin was 17%, up 460 basis points, primarily driven by scale. Building on last quarter, the benefits of scale continue to improve profitability across the entire portfolio. You're seeing that scale in the decoupling of revenue growth and operating expenses, driven by two factors: strong demand and supporting record revenue. Additionally, our modernization efforts continue to drive operating-expense efficiencies. We also maintain strong operational and pricing discipline in a dynamic environment, reflecting the team's strong execution and continued focus on supporting our customers. Most of these benefits are structural and are reflected in our higher four-quarter margin-rate expectations. However, rates will sequentially moderate, as the benefit from a stronger North American sales mix normalizes.

Turning to CSG, CSG revenue was up 3% to $12.9 billion. CSG operating income was $0.7 billion or 5.5% of revenue, roughly in line with expectations. CSG provides important scale to our supply chain and drives significant cash generation, given it's our most capital-efficient business. Moving to cash and the balance sheet, we delivered another strong cash quarter, with cash flow from operations of $4.5 billion, driven, primarily, by sequential revenue growth and higher profitability. We ended the quarter with $16.3 billion in cash and investments, up $2 billion sequentially. And our core leverage ratio is at 0.7x. We returned an all-time record $4.9 billion to shareholders this quarter, reflecting the second consecutive quarter of heightened shareholder return, averaging $4.6 billion against a $1.9 billion run rate last year. We repurchased 9 million shares at an average price of $488 per share and paid a dividend of approximately $0.63 per share. Additionally, the Board of Directors approved a $25 billion increase in our share-repurchase authorization, reflecting our confidence in continued strong free cash flow generation, commitment to shareholder return, and long-term value creation. We remain committed to our long term capital-allocation framework, including our commitment to return at least 80% of adjusted free cash flow to shareholders.

Turning to guidance, given the momentum we're seeing in ISG, we're raising our four-quarter revenue growth and non-GAAP diluted EPS expectations. We expect $56.25 billion revenue at the midpoint, up 69% year on year, driven by ISG growth of roughly 120%, with AI-server revenue up sequentially to roughly $23.5 billion. Traditional servers continue to grow triple digits, with storage growing in the low teens. Operating expense is expected to remain roughly flat sequentially and just under 7% of revenue. We expect operating income rate to be roughly up 175 basis points, with both ISG and CSG similar year over year. We anticipate a diluted share count of roughly 634 million shares and I&O of roughly $450 million. Diluted non-GAAP EPS is expected to be $8.40 at the midpoint, up roughly 115%. Our Q4 guidance implies a record FY27, with record revenue of $202 billion, up nearly 80%. Full-year operating income rate is expected to be up roughly 350 basis points and is well above our expectations, entering the year. Importantly, we expect this expansion, despite the mix pressure of $78 billion in AI-server revenue, more than 3 times larger than last year. Non-GAAP diluted EPS is expected to be $29.68, up nearly 190% at the midpoint. And, briefly, on FY28, as Jeff mentioned, demand in ISG remains robust and growth will be driven by multiple demand vectors. AI-server demand continues to accelerate. And we will be well-positioned to capture that growth. Data-center modernization will drive growth in both traditional servers and storage. Traditional workloads and data keep growing, aged install bases need refreshing, and customers are hardening cybersecurity. At the same time, inference and agentic workloads are extending infrastructure demand into traditional servers and storage. Within a supply-constrained environment, we continue to prioritize ISG. While we expect the PC unit environment to remain soft next year, the impact is manageable, given the strength of our infrastructure business. While the base is much higher, the EPS levers we outlined at our Investor Day roughly a year ago remain the same. We continue to focus on revenue growth, margin accretion, and operating leverage, which, together, drive significant cash generation and shareholder returns.

In closing, we delivered another exceptional quarter, with record year-to-date results. Over the past three quarters, revenue was $145.8

billion, up 82%; diluted EPS grew 231% to $21.32. We generated record cash flow from operations of $10.8 billion and returned an all-time record $11.2 billion to shareholders. The team executed exceptionally well, with growth across the business. ISG demand remains robust. And, in a supply-constrained environment, we continue to prioritize storage and servers. The modernization work we've been driving for the past several years helped drive operating expenses to 7% of revenue, an all-time low in our 42-year company history, while strengthening our competitive advantages across innovation, go-to-market, services, and supply chain. We remain focused on capital efficiency and cash generation. We're excited about Q4 and remain confident in our ability to create long-term value for our shareholders, as we go into next year. Thank you to the team for their execution. And thank you, all, for your time today.

Now I'll turn it back to Paul to begin Q&A.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, David. And let's get to Q&A. In order to ensure we get to as many of you as possible, please ask one concise question. Let's go with the first question.

QUESTIONS AND ANSWERS

Operator

We'll take our first question from Mark Newman with Bernstein.

Mark Newman Sanford C Bernstein & Co LLC - Analyst

Thanks so much for taking the question. And congrats on great numbers. Besides the strong revenue growth here, you've also got pretty strong operating-margin improvement across all the ISG components. As we go forward, how do you think about how the operating margin will change, going forward? Because I think you've had this ability to benefit from rising costs of memory because you've had some supply

constraints. Whether your competitors had, perhaps, more supply constraints, you've passed on perhaps more than the cost increase. So not only is operating-margin increased but gross margin has also increased on a product-by-product basis. Just, going forwards, how should we think about that? And what's embedded in this guidance regarding profitability for the main components of ISG, AI servers, traditional servers, and storage? Thanks very much.

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Sure, Mark. It's David here. I'll start. You're right. Look, the starting point here is the strong demand and, ultimately, the revenue growth in the ISG business. It's broad-based so pick your geography, customer segment, customer vertical. It's as broad as it's ever been. It's obviously anchored with the $22 billion of AI shipments, which is a record and 35% higher than the previous record, as we go even higher, again, in Q4. The traditional server growth, 235%, obviously drives the P&L. And, look, ultimately pleasing to see storage growth back up what we saw in Q2 and deliver 24% growth in Q3. All that growth means, from a rate perspective, the operating leverage that's driving into our P&L is exceptional. Our OpEx as a percentage of revenue within ISG improved 8 points year on year and 2 points quarter on quarter. So true scale and this idea of decoupling revenue growth from OpEx performance is truly on show. And it validates our own modernization journey that we're doing within the company. And, ultimately, that's sticky, that's structural, and will endure, as we go forward, from a P&L perspective. That OpEx obviously allows us then to absorb -- as you see AI server grow almost 3x year on year, we're able to absorb that into the rate. You saw ISG OpInc up almost 5 points year on year to 17% of revenue. And, ultimately, as we look into Q4, you're seeing more of the same. We've added revenue dollars. We've added margin dollars. We've added rate. So we've taken up the guide across the board in relation to that. And, ultimately, that's what we look to do, continue to drive and see revenue growth. Totally decoupled from that, the OpEx performance will continue to find scale. And we're committed to continued significant scale into the P&L. And it really sets us up well to drive growth, going forward.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, Mark.

Mark Newman Sanford C Bernstein & Co LLC - Analyst

Thanks so much.

Operator

And we will move to our next question from Amit Daryanani from Evercore.

Amit Daryanani Evercore Inc - Equity Analyst

Yeah. Thanks a lot. Good afternoon, everyone. Jeff, you spoke about, in your prepared comments -- the gap between supply and demand continues to widen in reflection of what's going to happen next year, I think. That's in a big stark contrast, I think, to what investors are worried about, that AI spending might be approaching a peak fairly soon. Can you just unpack what do you think is driving the gap from your perspective in that supply-demand dynamic? And then, when I think about you folks getting to a Q4 revenue run rate of about $56 billion, without asking you for a formal fiscal '28 guide, can you just talk about which businesses or segments that you see have visibility to grow from this exit rate, as you go into fiscal '28? Thank you.

Jeff Clarke - Dell Technologies Inc - Vice Chairman and Chief Operating Officer

Sure, Amit. Look, as we have moved through the year, I think we've been consistently saying this demand is durable. The appetite or the demand for intelligence broadly continues. We've seen no slow-down of that. I think our AI orders of another $60 billion quarter, we now have $180 billion of orders in the last four quarters. We've shipped nearly $66 billion. All the while, the five-quarter pipeline continues to build. We've added 4,500 Dell AI Factory customers in the last three quarters. It was 3,000 in the first eight quarters. It continues to grow. There are more customers in our five-quarter pipeline than we have served, to date. All signs are pointing to the continued demand appetite for intelligence, particularly as we've moved from a training, which has driven the market initially, to now inference, making our way and progressing to agentic, and, ultimately, to recursive learning. We see the pattern continuing. And, in fact, we would say, for the first three years, November '22 through October '25, it was essentially a market driven by single-shot AI. You ask it a question. You get an answer. Now, we're seeing that change, where AI is becoming the doer, the operator. And we're seeing that same benefit inside of our own company. David spoke to our record low operating expenditures and our modernization activities, all driven by the fact that we are seeing tremendous efficiency in our organization, driven by, now, agentic. And we fundamentally look at this, you could ask why that's the case. It's real simple. Work is really three components: There is a

component of work that you define what it is, you actually do it, and you verify it. The action, the operating of the work, is being increasingly moved towards agentic. And that is driving, we believe, an incredible growth rate in tokens and token consumption, the infrastructure that goes along with it, and we do not see that slowing down. So, when I look at the growth categories in our business, and whether that is in our storage business, whether that is in our traditional server business, and certainly on the AI side, it is inference, it is agentic. We are seeing KV cache need. We are seeing recursive learning need. We are seeing the agentic inference need, the resulting harnesses to operate this. And our forecasts remain, I think, unchanged from the last time we talked about this topic. We still see tremendous token growth through the end of the decade. 87 times, I think, was the last number I talked about, 3,600 quadrillion tokens. Training demand continues to grow 5x. We are still tracking over 200 gigawatts of build-out of shells and power to provide the homes for all of this compute capability that is being needed. So, again, no slow-down. I look at our own use inside our company. Our token growth is greater today than it was, when the fiscal year began. Our use of agents -- any given day, there are 100,000 agents spun up across our organization by our developers and knowledge workers consuming tokens. We have enterprise-wide agents driving a significant token use inside our company, driving, again, the efficiency that we talked about. And then, we are going to double that number in the next 90 days. So I think we, as, a customer zero, see this --- the customers that we work with across neoclouds, across our sovereign and enterprise space continue to reinforce it. And we think the demand is very durable, as reflected in our order rate and our backlog.

David Kennedy - Dell Technologies Inc - Chief Financial Officer

And I think, Amit, to build on that -- Jeff has set the table in terms of the robustness of the demand that we see. I think one linkage point tied to next year that you referenced -- but, if you think through our long-term value-creation framework and the tools in our toolbox in relation to EPS generation -- continue to be there, continue to be as strong. It is number 1 -- that drives everything, with profitable growth back to the leverage of the OpEx, and then, ultimately, generating free cash flow that we can return to our shareholders. All of those give us a very agile list of tools in our toolbox that we can work with, as we continue to observe the appetite for the intelligence in the ecosystem.

Jeff Clarke - Dell Technologies Inc - Vice Chairman and Chief Operating Officer

Yeah. And, maybe, to wrap the bow on it, since you asked this portion of it, Amit -- is -- and that demand is ahead of supply. In fact, we think the demand is further ahead of supply in calendar '27 than it has been in '26.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Amit, thanks a lot.

Operator

And we will go to the next question from Ben Reitzes with Melius Research.

Ben Reitzes - Melius Research LLC - Equity Analyst

Hey, guys. Thanks a lot. I wanted to talk about traditional servers a little bit. You obviously had a great quarter in there. But the guidance looks like it is down about 7% or 8%, sequentially. And I was just thinking that, maybe, more CPU racks would slide in there by the fourth quarter. And I was wondering if you could just discuss how that is going to play out sequentially into calendar '27, when, maybe, we start to see the impact of agentic CPU racks -- and whether you are just being conservative with the fourth quarter, with regard to that number going down, sequentially. Thanks so much.

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Yeah. Thanks, Ben. Yeah. Look, as we look at our really pleasing performance in Q3, that 235% growth, looking to the Q4 guide, it is still a very impressive 137% growth guide that we have got in there. Ultimately, we are seeing this multiplicity of demand angles continue to come at us, whether it is the aged install base and the growth in workloads in the traditional data center, the evolution of the AI and inferencing. And, obviously, cyber and security-resiliency conversations continue to observe what we are looking at. I think, look, from an operational perspective, we did touch on earlier this year our ability with the leverage and the ecosystem we have to transport some of our PC wafers into server supply in for the back half of the year. We would have planned a lot of that for November. We have probably got a little balance of that between October and November, as we see that working through. But we want to be clear, there is no change of course and speed in terms of the demand vectors that we are seeing from the traditional-server space, as we move forward.

Jeff Clarke - Dell Technologies Inc - Vice Chairman and Chief Operating Officer

Yeah. Maybe some additional color, Ben, on the traditional server marketplace. $8.5 billion in Q1, $10.5 billion in Q2, $15 billion of revenue in Q3, $34 billion through the first three quarters. We did $19.5 billion last year -- all of last year. So incredible results. The momentum is growing. And we see the vast majority of this demand coming from our existing customer base, from small business to our largest enterprises -- that the demand is global in nature. North America, in particular, we are seeing the continued what we have called out before is the modernization of data centers for power, space, and cooling. David just mentioned the refreshing of the installed base, which has never been older at this time and it is very significant. Our 17G products convert that at roughly a 7:1 ratio. Our 18G products convert that to a 12:1 to 14:1 ratio, so significant consolidation. And we see workloads inside the traditional enterprise growing, needing more compute. And then, obviously, I think I mentioned in the prepared remarks the notion of security and resiliency requirements driving demand. And the one you and I have talked about in the past is the fastest-growing area -- is the compute needed for the agentic AI and inference era running the harness. And we are seeing this broadly across the neoclouds and enterprises; think financial services, the EDAs and semi companies, HFTs, pharma, to name a few that are very advanced in their AI deployments. This is a four-quarter trend. It is, by far, the fastest growing part of our traditional-server business. It initially started as inference. It is now agentic AI. I think, as I mentioned just moments ago, that it will build towards recursive learning in the future. It is going to drive more demand. It continues to be TAM expansion of the traditional server marketplace. And, in your modeling, I suspect we will get to this but, to help everybody, the ASPs of agentic servers and inference servers are roughly twice the ASP of a traditional server. So we see significant growth. That demand continues to be out there. Getting supply, obviously, is key to fulfill it. And we are excited about the prospects of our traditional server business continuing to grow.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, Ben.

Operator

And we will go next to Wamsi Mohan of Bank of America.

Wamsi Mohan BofA Merrill Lynch Asset Holdings Inc - Analyst

Yes. Thanks for taking my question. So you express a lot of confidence in converting the backlog. And, clearly, you guys have been doing a great job. But can you, maybe, just walk us through the potential impact in the event of data-center delays? As you know very well, sitting in Texas that has been a hot topic. And who bears the inventory and repricing risk, if the nodes get delayed? Jeff, maybe just to zoom out your perspective on if you expect any delays to be impactful in 2027 and 2028.

Jeff Clarke - Dell Technologies Inc - Vice Chairman and Chief Operating Officer

Well, I think, Wamsi, the broader issue is we continue to track the orders and backlog. I think both David and I said in our prepared remarks that we have a vetting process. That vetting process is clearly the financial side of this and, ultimately, is there a building, and is the building being completed, and does it have the power and cooling capacity that it needs. We've been tracking that in this business since day 1. I think we've often said, when asked about the gating items, this is a very complicated business, complex orchestration of many variables. We just talked about a couple of them. Is the site ready? Is power installed? Is cooling installed? Can they receive the gear? Can we get the supply that's lined up with that, whether that be CPUs, whether that be memory, whether that be as silly things as optical transceivers and receivers? All of those play into the orchestration of being able to deliver to a customer. We've had no customers reschedule business. The backlog continues to be very firm. David can speak to the financial integrity of that backlog in just a moment. But we believe we have a high probability that that backlog absolutely converts into shipments on the deliveries that we've committed to our customers. That backlog is over multiple quarters. I will not get into segmenting it out by quarter but the backlog is multi-quarter in nature. It's global in nature. It's across nearly 100 sites globally, as many sites outside of the United Sates is inside the United States, distributed across many states within the United States. So we believe we're in a really good position, when you look at where our customers are deploying gear. David?

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Yeah. To build on it in relation to the credit and capital element of that discussion, again, like Jeff said, it's not a new process. We've had this rigorous process in place. And we've been very consistent, I think, in the last three, four cycles here in relation to that, whether

it's the credit assessment, the financing options were required. Think of the investment-grade contract of the end user. That's a very big element to us -- our ability to see those contracts fully unredacted, understanding all the T&Cs and the fine print of those so we can make good decisions. And I think that the piece that maybe gets lost is, it's actually an evergreen process. It's not an add-in-time element. While things sit in backlog, to Jeff's point, at the time it is ready to head into production, down the line, we would redo all those steps. We talk to all our big customers,

whether they are neoclouds or not, around forward-looking cash collections by week. That rigor is in place. And that same high standards apply to our financing assessments around the AI business. We are providing financing. It is very select. It is always and exclusively short term in nature. I think, an example of that, if you look at our Q3 results, our financing receivables balance grew a modest $500 million quarter on quarter against the backdrop of shipping a record $22 billion of AI shipments. You can see it is not for everybody. We will utilize our facility, as and when it is required. But, all in all, it is something that is front and center of the executional arm of the company.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, Wamsi.

Operator

And we will go next to Katherine Murphy with Goldman Sachs.

Katherine Murphy Goldman Sachs - Analyst

Thank you for the question. Staying on the traditional-server business, can you help us think about, both for the results in the quarter and embedded in outlook, the drivers across units versus pricing? And then, you also noted expectations to gain share, both on the traditional server and storage market. Can you talk about -- if you are seeing any better-than-historical attach on storage, relative to history; and how your reprioritization of CSG-designated wafers towards ISG might help with some of these market-share gains? Thank you.

Jeff Clarke - Dell Technologies Inc - Vice Chairman and Chief Operating Officer

Sure. Let me start with the server units question that you asked. Look, very directly, server units were down. We expected that. Given the inflationary environment that we're operating in now, we don't think that's the correct way to measure the true value of what is happening in the server marketplace. There has been significant unit-TAM destruction with the inflation that has been in the marketplace. If you take what has traditionally been 20% of the units, which have been 1P towers and 1P racks, that would have been 20%-ish of the units, 2% of the revenue. That market of under $3,000 servers is gone. So, industry-wise, there are fewer units. But what's interesting and, I think, very telling is the content of every server that we sold and shipped in the quarter was significantly different. Let me explain a little bit. So, as we think about value and you think about these ratios that I mentioned earlier, where an 18G server can consolidate 12 to 14 of our old 14G servers, that's built on a premise they're more capable. That capability is built on more cores, more DRAM, and more NAND. We shipped and sold more cores in Q3 than we did the previous quarter and year over year. We shipped more cores and more -- or excuse me -- more bits of DRAM per server than we did last quarter and last year. And we shipped more bytes of storage in the servers we shipped this quarter than we did last quarter and last year. So the content per server is going up significantly. Not inflation, just an absolute content. More cores, more bits, more DRAM per server. More productive, more powerful servers capable of being deployed, albeit in fewer units, taking on significantly greater workloads. That's what we're seeing in the marketplace. That has been, I think, consistent trend now for several quarters. And I think that will continue, going forward.

On the storage side, it's a different trend but a similar outcome. What we're seeing is greater attach of our higher-value storage products: our Dell IP portfolio. The Dell IP portfolio, we ran across a bunch of numbers but seven consecutive quarters of growth now. I think PowerStore has grown 10 consecutive quarters of double-digit growth. The unstructured products continue to grow quite nicely. The demand of them was in triple-digit range. We are seeing more attach of storage in our AI business, particularly around the unstructured products, our PowerScale and ObjectScale products. That continues to bode well, as we go in the future, because the demand drivers for storage in the future around the very same things that I described in servers -- the agentic workload, agentic AI, KV cache, multi-modal workflows, and recursive learning -- all drive incremental storage. And, in fact, incredible amounts of storage, as you have to start looking at the traces and logs of every agent. As you start looking at the artifacts the agents create, if you look at some of the retrievable corpora that the agents create, that is all driving significant storage growth and storage opportunities in the future. Again, you can go on with KV cache, the multi-modal workflows. When you start going into imaging, you start going to video, audio, sensor drives more bytes of storage that has to be ultimately stored. And, ultimately, you are going to see that storage grows and grows and grows, not by GPUs that are deployed but by the bytes that have to be retained. And that compounds storage over time. Those are the growth drivers. That is where we are seeing the opportunities and where the focus of our business is.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks Kat.

Operator

And we will move to our next question from Erik Woodring with Morgan Stanley

Erik Woodring Morgan Stanley - Analyst

Hey, guys. Thank you very much for taking my questions tonight. So just on the ISG operating margins, really strong, 17% this quarter, obviously, up sequentially and year over year, despite AI servers being very strong. Can you just help us understand the bridge, as we look to the fiscal 4Q ISG operating margin? Just understanding how triple-digit traditional server growth and strength in AI servers in 4Q contribute to that step-down in ISG operating margins. Just trying to understand what might be changing there and what that might mean preliminarily for fiscal-year '28, please. Thank you so much.

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Yeah. Sure, Erik. Yeah. Like I said earlier, if you look at our Q4 guide, we are adding more revenue, more margin dollars, more operating-margin rate into the guide versus 90 days ago and, again, versus 180 days ago. So you are seeing this consistent improvement in our performance in relation to the scale benefit we touched on earlier, as we move forward. One element, obviously, you mentioned AI server. We continue to raise the bar there so you see $23.5 billion into the Q4 guide. That is running its way through. And then, look, as we touched on earlier, as we look through the Q3 performance in that 235% growth from traditional server, a nice tailwind mix of North America business in there in terms of the operational execution. We have modeled here that will normalize its way back in. But, ultimately, obviously, our ISG operating margins here for Q4 are above the high end of our range. So very strong performance and a good indication of the strength in the P&L.

Jeff Clarke - Dell Technologies Inc - Vice Chairman and Chief Operating Officer

Yeah. Erik -- and I would step back, maybe, and look at it from an annual basis. If you look at the guidance that we rolled out at the beginning of the year -- and with the guidance that we just summarized for the year and for Q4 -- we will have added nearly $58 billion of ISG revenue; $28 billion of that in AI servers and $30 billion of that in core servers or traditional servers, networking, and storage. And, in doing so, our operating income has expanded a little over 400 basis points. So the macro theme, as we have grown significantly in AI, the core business continues to grow. And you are seeing that expansion. And I think, with the prospects of the demand durability; the demand outlook that we see, going forward; and the leverage of our operating decisions that we are making with modernization, we can continue to see performance in that range.

Erik Woodring Morgan Stanley - Analyst

Awesome, guys. Thank you so much.

Operator

And we'll move to our next question from Joseph Cardoso with J.P. Morgan.

Joseph Cardoso J.P. Morgan - Analyst

Hey. Good afternoon. And thanks for the question. Maybe, just switching gears here: In the prepared remarks, you mentioned new orders are now coming in and largely on Vera Rubin. Just curious if you can just talk to how we should be thinking about Rubin rack pricing, services attached, and margin opportunity compared with Blackwell for Dell. And then, I also believe, in your prepared remarks, you talked about liquid-cooled networking and storage. As that gets added at the rack level, how material can that be for Dell? And, also, how does that influence margins for the company? Thank you.

Jeff Clarke - Dell Technologies Inc - Vice Chairman and Chief Operating Officer

Well, at a macro level, we're still operating the business in the mid-single digits. We continue to see the growth that we described: the $60 billion of order in the quarter, the $180 billion over the past four quarters, and a growing backlog and five-quarter pipeline. We have priced Vera Rubin with the expected delivery date with all of our customers, when their availability of buildings and power, etc, are all lined up. The opportunity to attach networking, storage, I think, we've been consistent on is an opportunity for margin improvement across our businesses. We continue to focus on that. We continue to see nice attach rates. We still have work to do. If Arthur Lewis was in here from our ISG business, we would talk about, how do we grow our storage business inside all of these accounts. That's what we continue to focus on. I just made reference about all of the new storage opportunities that exist around AI and agentic AI. That is where our focus is with our storage solutions at an individual software-defined storage layer, at an appliance layer, and at a rack level for all of these large deployments. Again, a lot of agentic AI is going to be done in the enterprise, where we have a large footprint today, where we have significant coverage today, and where our teams are focused on delivering the right products for enterprise scale, as well as driving the rack-scale products for the largest clusters and neoclouds in the world.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, Joe.

Operator

And we will move to our next question from David Vogt with UBS.

David Vogt UBS - Analyst

Great. Thanks, guys, for taking my question. Maybe, Jeff, big picture, thematically, can you share your perspective on the server market, particularly, if we start to see some deflation or, maybe, steadying pricing for DRAM and NAND and what that means, from a customer-demand perspective, pricing? Presumably, there are customers on the side-line, given the rapid increase in pricing that we have seen across the CPU server market. But would love to get your perspective in terms of where you think pricing goes, demand. I know it is a difficult question but also configurations and, maybe, specifications in an environment that is maybe not as inflationary, from a component perspective. Thanks.

Jeff Clarke - Dell Technologies Inc - Vice Chairman and Chief Operating Officer

Well, I'll start with not as inflationary is still a cost increase to our customers in the form of price. And, given the significant inflation that's over the past year, even a moderating inflationary number still leads to higher-priced products for our customers. From a macro view, when we look at the supply picture and our supply outlook, there's nothing that suggests that we're going to see price declines in enterprise, NAND, and DRAM for servers. The demand for those categories of memory continues to be way ahead of the supply. As more DRAM wafer capacity is set forth for GPUs and, specifically, building HBM, it comes at the expense of all other types of memory. We think that crunch continues, clearly, into 2027. And, while the rate of inflation will not be the same as we saw in '26, we still believe the market is inflationary.

Customers are spending their budgets today. I don't know of a customer that's on the side-line. It doesn't buy as much as they used to but I'd also tell you that server they're buying today, if it's a 17G or an 18G server from us, is significantly more capable than the thing that it's replacing. So, if you were to take a 14G that we sold five years ago, four years ago, and it's being retired, that product was $7,500, $10,000, give or take. While today's 18G product will be more expensive than that, it replaces 12 to 14 of them. The consolidation rate is significant. And customers are benefiting from that. And, while they're tying all of the questions together, while that may mean fewer units, it's a more capable machine. And that is what's being deployed in small businesses to the largest corporations in the world to meet their needs. But customers aren't on the side-line in servers. Would be different if we were talking about PCs. I think companies are deferring their PC purchases to ensure they have the infrastructure to work in what is going to be a very disruptive era with agentic technology really reinventing companies. And that's what we see happening in the marketplace. So do I think the rate of increase slows? Yes. Do I still think that a significant price implication to our customers? Yes. Because a smaller percentage on a large number is still a lot of dollars. Customers are spending their budgets. We see them active in the marketplace. And we believe that will continue into '27.

David Kennedy - Dell Technologies Inc - Chief Financial Officer

I think, Jeff, to build on that, I think the customers are trying to be resourceful and agile there, too, in terms of our DFS offerings. So, for investment-grade customers, the originations growth we have seen in PCs, storage, and servers, up 55% in Q3. So you can see thereis an appetite and a need to get infrastructure built out. So, even on a budget crunch in the near term, our ability to turn CapEx into OpEx and understand what that looks like is a differentiated capability that we have in the marketplace. And I think our customers have appreciated the flexibility and being able to take advantage of that as part of their IT build-outs.

David Vogt UBS - Analyst

Thanks, guys.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, David. And we will take one more question.

Operator

We will now take our final question from Tim Long with Barclays.

Tim Long Barclays Services Corp - Equity Analyst

Thank you for squeezing me in. Wanted to get back to the traditional server, some of the comments you made about a little bit more CPU type of servers to neoclouds and, probably, to sovereigns, as well. Curious if you could just, somehow, quantify the pace or how that's looking -- how margins look for those type of products. And then, when you are selling these customers CPU servers compared to GPU servers, is the attach rate different? So, maybe, if you just scale how big and strong that business is and what it means for some of the other dynamics that we look at across the business.

Jeff Clarke - Dell Technologies Inc - Vice Chairman and Chief Operating Officer

Sure. Let me try. A traditional server sold into a non-GPU application -- and we separate the business. There is a GPU, that is the AI server business. There is the traditional-server basis, non-GPU base, which I tried to talk about earlier. The fastest growing component of that is inference-driven and agentic AI-driven. It is not the largest portion of our traditional-server business, which is our traditional enterprises and traditional applications -- the things that we have talked about before. When I think about these servers going into these new workloads, it is across neoclouds, who are deploying them. That is in the financial-services market. It is in the game market. It is in the semis market, high-frequency traders, pharma, etc. They are very advanced in their AI deployments. They are driving agentic AI across their enterprises. And we believe that market continues to grow, as the next iteration or evolution of agentic takes place, which is recursive learning. All of that drives more compute. More agents, more compute. The harness is essential to this. And the work that the harness does is really a CPU task. It is these things about how you manage containers; how do you manage sandboxes, manage IO; how do you orchestrate? That workload, which is CPU-driven, is what we are talking about here. And I referenced earlier: Those types of servers are roughly twice the ASP as an enterprise-class server running an enterprise workload. The margins in those classes of devices, as all of our -- across our server portfolio, is well within our product-by-product internal marks that we make for our server products. And we feel very comfortable about that business. And the prospects of growth are significant.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

All right. Tim, thank you very much. And, Jeff, please close us out.

Jeff Clarke - Dell Technologies Inc - Vice Chairman and Chief Operating Officer

Sure. Thanks, Paul. And thanks, everyone, for joining us today. Demand continues to exceed supply. And our world-class supply chain positions us well to capitalize on the opportunity. We are looking forward to Q4 and capping off a record year. Our full-year revenue guidance, of $202 billion; and non-GAAP diluted EPS of $29.68, nearly up 190%. We head into FY28 with strong momentum and confidence in our ability to continue creating long-term value for shareholders. Thanks, again, for your time today. Happy Thanksgiving to everyone.

Operator

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