

# TRANSCRIPT

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## PRESENTATION

### Operator

Good afternoon and welcome to the fiscal year 2025 fourth-quarter financial results conference call for Dell Technologies, Inc. I'd like to inform all participants that 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 the prior written permission of Dell Technologies is prohibited. (Operator Instructions)

I'd like to turn the call over to Paul Frantz, Head of Investor Relations. Mr. Frantz, you may begin.

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**Paul Frantz** - Dell Technologies Inc - Vice President, Investor Relations

Thanks, everyone, for joining us. With me today are Jeff Clarke, Yvonne McGill and Tyler Johnson. Our earnings materials are available on our IR website, and I encourage you to review those materials. Also, please take some time to review the presentation, which includes additional content to complement our discussion this afternoon. Guidance will be covered on today's call.

During this call, unless otherwise indicated, all references to financial metrics refer to GAAP financial measures, including non-GAAP gross margin, operating expenses, operating income, net income, diluted earnings per share, free cash flow and adjusted free cash flow. A reconciliation of these measures to the most directly comparable GAAP measures can be found in our web deck and our press release. Growth percentages refer to year-over-year change unless otherwise specified. 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 our web deck and SEC filings.

We assume no obligation to update our forward-looking statements. Now I'll turn it over to Jeff.

**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

Thanks, Paul, and thanks, everyone, for joining us. I am proud of the team's execution this year. We navigated an incredibly dynamic AI environment and accelerating server consolidation, a significant pivot to Dell IP storage and a lagging PC refresh and delivered results above our long-term value-creation framework. We grew our company while reducing our operating expenditures over the course of the year. Our modernization have made us more efficient and provided us the ability to invest more innovation and in areas of strategic differentiation.

Our FY25 revenue was \$95.6 billion, up 8%, with operating income of \$8.5 billion. OpEx was reduced by 4% over the course of the year. This resulted in record EPS of \$8.14, up 10%, and cash flow of \$4.5 billion. We continue to differentiate ourselves with consistent performance through numerous economic cycles, different technology buying and adoption cycles and our rapidly innovating technology ecosystem. Some examples of the innovation from this past year.

We added five platforms to our AI-optimized portfolio, including support Blackwell architectures, the highlight being the PowerEdge XE9712 supporting NVIDIA's NVL-72 GB200, which we were the first to ship in the world. We launched the Dell Infrastructure Rack Scalable System, our IR 7000 and 5000 in both 21-inch and 19-inch versions, providing up to 96 GPUs in a rack and 786 GPUs in a scalable unit. We have made significant advancements of CDUs, cold plates, manifolds, and power distribution with our IR 7000 supporting up to 480 kilowatts per rack. We introduced our direct-to-chip liquid cooling version of the 9680, providing 33% density improvement and 2.5 times improvement in energy efficiency. We made significant advancements to PowerStore with PowerStore Prime, our mid-range storage solution addressing the fastest-growing portion of the market.

And we introduced the PowerScale F910 and F710 in our unstructured portfolio that is prime to support unstructured and AI workloads. We introduced the most Copilot+ PCs powered by ARM-based Qualcomm Snapdragon processors and also launched the broadest portfolio of Intel Lunar Lake commercial PCs, furthering our #1 leadership position in commercial AI PCs worldwide. We continued our number one leadership in PC monitors with the world's first 4k monitors to achieve 5-star Eye Comfort certification. We've focused on expanding our peripherals portfolio, selling everything around the PC docking stations, cameras, mice, keyboards and headsets, including the first and only holistic solution to manage your fleet of PCs and peripherals remotely, creating the best possible customer experience. And finally, we simplified our branding, redesigned our PC portfolio and broadened our silicon options across Intel, AMD and Qualcomm, setting us up well for the PC refresh.

We are extremely well positioned to capture growth across every segment of our business and extend AI from the largest at-scale CSPs to enterprise workloads and out to the edge with the PC. These tailwinds and our unique operating model that leverages our leading product positions, our go-to-market engine, services and supply chain, underpin our confidence that our opportunity continues to grow as we look ahead to FY26. Moving to Q4. Revenue was \$23.9 billion, up 7%, driven by a robust ISG growth. We executed particularly strong with substantial operating margin improvement in ISG driven by our Dell IP storage portfolio.

This resulted in EPS of \$2.68, up 18%, growing faster than revenue. Turning to BU results. Let's start with ISG. The prospects for AI are strong, and we are very well positioned. In Q4, AI orders demand was \$1.7 billion with \$2.1 billion in shipments in order with \$4.1 billion in backlog as customers work through technology changes.

And in February, our partnership with XAI and other customers continued. We booked deals putting our AI backlog at roughly \$9 billion as of today. Our pipeline expanded sequentially and has grown every quarter since the introduction of the XE9680. We are seeing continued progress in AI from enterprise customers, albeit still earlier in their journey with sequential growth in both orders and customers. And our engineering services, financing and ability to optimize density and performance per watt are important differentiators for the largest at-scale CSPs and provide very efficient enterprise solutions.

In traditional servers, the growth trajectory continues, up double digits in Q4. We've now seen five quarters of year-over-year demand. Our mix of [16G] servers continues to increase as customers remain focused on consolidation to improve power efficiency and increase floor space. The server

consolidation in the data center is expanding server TRUs driven by service with more CPU cores, storage and memory. In storage, we saw P&L growth for the second consecutive quarter with very strong profitability driven by our Dell IP storage portfolio.

PowerStore, our flagship midrange product, has had strong demand growth for four consecutive quarters, the most recent three at double-digit demand growth. As I mentioned, the software and hardware updates we made with PowerStore Prime resonate with customers and partners. We have industry-leading [5-to-1] data reduction, delivered 30% improvement in IOPS Native MetroSync and QLC availability. We also saw double-digit demand growth in PowerScale, our leading unstructured storage platform, and continued growth in our buyer base with PowerFlex. We are well positioned in some of the fastest-growing categories within storage as customers shift towards disaggregated architectures.

In CSG, we are seeing the recovery coming with strength in SMB, which historically is a leading indicator. We also saw large opportunities within the quarter, which were very competitive. Commercial was up 5%, marking the second consecutive quarter of year-over-year growth and the fourth consecutive quarter of demand growth. Consistent with what we saw coming out of Q3, customers are waiting to refresh to buy AI PCs that future-proof their purchases going forward. Consumer continues to be challenged with softer demand and elevating levels of discounting.

We expect a broader PC refresh this year as the installed base continues to age, we get closer to the Windows 10 end of life and AI PCs are more broadly available. To close, I am proud of our FY25 results and our ability to execute our strategy, leveraging our strengths to extend our leadership positions and capture new growth. The AI hardware and services TAM has nearly doubled over the course of the year to \$295 billion in 2027, growing at a 33% CAGR. We are well positioned in AI, traditional servers, storage with our focus on Dell IP and PCs, including everything around the device. We continue to drive a disproportionate level of AI growth by demonstrating the value we provide to our customers.

And I'm excited for the tailwinds surrounding our business as we enter FY26. Now over to Yvonne for more details about Q4.

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**Yvonne McGill** - Dell Technologies Inc - Chief Financial Officer, Corporate Controller

Thanks, Jeff. Let me begin with an overview of our Q4 performance, then I'll move to ISG, CSG cash and guidance. In the fourth quarter, we delivered strong profitability, specifically in ISG. Our total revenue was up 7% to \$23.9 billion. This was driven by continued strength in servers. Our combined ISG and CSG business grew 10%. Gross margin was \$5.8 billion or 24.3% of revenue. This is down 50 basis points due to a more competitive pricing environment, predominantly in CSG, and an increase in our AI-optimized server mix. Within gross margin, we discovered previously unrecognized accumulated credits from suppliers. You'll find revised financial results within our Q4 press release that reflect higher gross margin and increased earnings per share for the relevant period.

Operating expense was down 6.1% to \$3.1 billion or 13.1% of revenue. FY25 was a transformative year as we reevaluated, reimagined and modernized how we operate. This enabled us to unlock efficiencies and increase productivity, all while growing our core business double digits. Now let's look at operating income. We delivered a 22% increase to \$2.7 billion or 11.2% of revenue.

This was driven by higher revenue and lower operating expenses, partially offset by a decline in our gross margin rate. Q4 net income was up 15% to \$1.9 billion primarily driven by stronger operating income. And our diluted EPS was up 18% to \$2.68. Now let's move to ISG, where we delivered another quarter of strong performance. ISG revenue was \$11.4 billion, up 22%.

Servers and networking revenue was a Q4 record at \$6.6 billion, up 37%. We continue to see strong demand across both AI and traditional servers. Storage revenue was up 5% to \$4.7 billion, a second consecutive quarter of growth. We executed very well in storage. We had a record demand quarter for PowerStore.

PowerScale grew double digits, and our PowerFlex buyer base grew. While the overall demand environment is lagging that of traditional servers, we see some promising trends. We had record ISG operating income of \$2.1 billion, up 44%. This was driven primarily by higher revenue. Our ISG operating income rate was up again sequentially to a record 18.1% of revenue.

The rate improvement of 480 basis points was the result of improved gross margins, especially in storage, and reduced operating expense. Within storage, we saw record profitability driven by a higher mix of Dell IP versus partner IP, improved product profitability and revenue scaling in what is seasonally our strongest quarter. Now let's turn to CSG. CSG revenue was up 1% to \$11.9 billion. Commercial revenue was up 5% to \$10 billion, while consumer revenue was down 12% to \$1.9 billion.

CSG operating income was \$0.6 billion or 5.3% of revenue. This is down 90 basis points sequentially due to a more competitive pricing environment. We saw some promising signs as we went through November and December with pockets of strength in large deals, but overall saw a slowdown in January. As Jeff mentioned, we saw strength in small and medium business, which is historically a leading indicator. Profitability in commercial was weaker than expected as demand continued to push into the next fiscal year.

In consumer, the demand environment remains soft and profitability remains challenged. We are ready and well positioned for a PC refresh with our simplified rebrand, leading go-to-market engine and focus on commercial PCs, the most profitable segments of the market. Shifting gears, Dell Financial Services continues to drive differentiated payment solutions for our customers. We exited the year with a record \$15 billion in assets under management, up 5%. And when you normalize for the exit of our VMware resell business and the discontinuation of our commercial revolving product, DFS originations were up 7% in Q4 with a strong attach rate across the business.

Now let's move to cash flow and the balance sheet. Q4 cash flow from operations was \$0.6 billion. This was primarily driven by profitability, partially offset by working capital. Our cash conversion cycle was negative 31 days with \$6.7 billion in inventory. We ended the quarter with \$5.2 billion in cash and investments, down \$1.4 billion sequentially.

Our core leverage ratio was down sequentially to 1.2 times. We returned \$1.1 billion of capital to shareholders with 6.4 million shares of stock repurchased at an average price of \$117.51 and paid a dividend of \$0.45 per share. Since our capital return program began at the beginning of FY23, we've returned \$10.8 billion to shareholders through stock repurchases and dividends. We announced an 18% increase in our annual dividend to \$2.10 per share, well above our long-term value-creation framework. Additionally, the Board of Directors has approved a \$10 billion increase in our share repurchase authorization.

This is a testament to our confidence in the business and our ability to generate strong cash flow. Turning to FY26 guidance. IT spending is expected to grow with three underlying trends that we see. First, since this are leveraging AI to enable competitive advantages, and we are seeing that in our opportunity pipeline that continues to expand. Second, data center modernization is well underway with a focus on consolidation and power efficiency.

Third, customers are planning to refresh their PC installed base with AI-enabled devices. As these trends materialize, we will leverage our operating model that has driven value creation over the last 40 years. Against that backdrop, we expect revenue and EPS growth in FY26 above our long-term value-creation framework. We expect FY26 revenue to be between \$101 billion and \$105 billion with a midpoint of \$103 billion, up 8%. We expect ISG to grow high teens driven by \$15 billion of AI server shipments and continued growth in traditional server and storage.

And we expect CSG to grow low to mid-single digits, more weighted towards the second half of the year. We expect the combination of ISG and CSG to grow 10% at the midpoint. Given the higher mix of our AI-optimized servers and the current competitive environment, we expect our gross margin rate to decline roughly 100 basis points. As our modernization efforts continue, we expect OpEx to be down low single digits year-over-year. We expect ISG operating income rate to be roughly flat year-over-year with CSG down slightly.

We expect I&O to be between \$1.4 billion and \$1.5 billion. Diluted non-GAAP EPS is expected to be \$9.30 plus or minus \$0.25, up 14% at the midpoint, assuming an annual non-GAAP tax rate of 18%. For Q1, we expect revenue to be between \$22.5 billion and \$23.5 billion, up 3% at the midpoint of \$23 billion. ISG and CSG combined are expected to grow 6% at the midpoint with ISG growing low teens and CSG flat year-over-year. Gross margin rate will be lower sequentially given seasonally lower storage mix and a higher AI-optimized server mix.

OpEx will be down low single digits year-over-year. We expect operating income rate to be down sequentially given typical seasonality in ISG with lower storage mix. We expect our diluted share count to be between 706 million and 710 million shares, and our diluted non-GAAP EPS is expected

to be \$1.65 plus or minus \$0.10, up 25% at the midpoint. In closing, we delivered solid FY25 results, well above our long-term value-creation framework. We generated \$95.6 billion in revenue, record EPS of \$8.14 and returned \$3.9 billion of capital to our shareholders.

We executed our strategy and expanded our lead in AI while positioning our core business for the opportunity ahead. Internally, we began a transformation to future-proof the company, focusing on supplying, automating and modernizing how we work. And as we look forward, I'm excited about the sustainable growth we see and the value we will continue to deliver to our customers and our shareholders. Now I'll turn it back to Paul to begin Q&A.

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**Paul Frantz** - Dell Technologies Inc - Vice President, Investor Relations

Thanks, Yvonne. Let's get to Q&A. (Operator Instructions) Let's go to the first question, operator.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Wamsi Mohan, Bank of America.

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**Wamsi Mohan** - Bank of America - Analyst

Yvonne, could you talk through the fiscal '26 guide? And what sort of maybe some of the assumptions that are incorporated beyond what you stated? Your revenues are going to be up roughly in total about 7.7%, EPS up about 14%. But your comments on ISG and CSG margins are flat to down, and you noted a fairly competitive environment. So can you just bridge those sort of comments to your EPS growth?

How much is coming potentially from buybacks? And have you made any tariff-related assumptions in these margin guides?

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**Yvonne McGill** - Dell Technologies Inc - Chief Financial Officer, Corporate Controller

Thanks, Wamsi. So yes, in the guide for the year, we guided to the \$103 billion of midpoint, up 8%, with everything growing, right? ISG and CSG expected to be up combined about 10%. If I look at ISG, which I think some of your question is coming from, we expect that to be in the high teens, fueled by that \$15 billion of AI server shipments that we referred to as well as continued growth in both traditional server and storage, I'd say with storage in the low single digits. CSG, we do expect to grow in the mid-single digits coming up for the year that's just begun with that refresh cycle that we're expecting to be more weighted towards the second half of the year.

OpEx is another area. We guided to it being down low single digits year over year. That's just a continuation of all of the efficiencies that we're driving across the entire company. And then the OpInc improving year-over-year to the 9.1%, up from 8.9%, so an improvement there. When I think of what to expect from an ISG standpoint from an OpInc level, we're saying roughly flat year-over-year.

And we expect there to be continued competition, I guess, is the right way to put it in CSG. But again, we've guided and embedded that in there. And I go back to ISG real quick and say, hey, we are going to be growing the AI business while continuing to drive profitability there. So we'll continue to balance, as we have been doing, our growth and profitability. And we're going to manage pricing, we're going to manage the competitive environment, and we're going to continue to drive value for our shareholders.

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### Operator

Erik Woodring, Morgan Stanley.

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**Erik Woodring** - Morgan Stanley - Analyst

Jeff, a question I often get from investors is kind of about the risk of ODM encroachment in the AI server market. As customers get more sophisticated over time, competition intensifies, potentially margins face downward pressure. Effectively, the concern is AI servers become somewhat of a cloud 2.0 type of disintermediation. Clearly, your AI server backlog helps to refute this concern. But I would love if you could just maybe -- how would you respond to those concerns if you got that question?

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

Sure. Thanks, Erik. I mean, do we see the ODMs in these large opportunities? Of course, we do. These are multibillion-dollar opportunities.

Everybody tends to show up and wants an opportunity to win the business. When I step back and reflect why Dell and why we continue to be optimistic here is this is custom work. It takes significant engineering capability. It takes significant architecture capability to win. And in many cases, we're building a unique and differentiated solution for each and every customer.

And our customers have learned to value what we've been able to bring to them across their deployments, whether that is the service side when we extend beyond an L10 server out of the factory with L11 and L12 and full integration of a rack, on the network expertise we bring to do the install and deployment of very complex network arrays. When I think about service, the ability that we have a global service footprint, professional servers can show up anywhere to solve any related problem or hands-on in these very large deployments with full-time teams. Literally, they're 24/7 trying to get them up and running. I think about the financing capabilities that we have in our company and the ability to help these CSPs, these fast-growing companies grow at the rates they want with our financing capabilities, I think about our go-to-market coverage and I think about the expertise we have in the top 30-or-so CSPs digital natives, our ability to scale this to enterprise. Erik, every time I look at this question, and I don't really focus on ODMs or for that matter, other OEMs.

I look at the differentiated value we are bringing to the marketplace with the Dell company bringing end-to-end solutions. And right now, it's valued. And right now, we continue to differentiate. Right now, we help these scale large clusters get deployed faster than anybody else. I'll remind you, I probably did last time as well, we were the first to bring to market a GB200 rack.

That's not by luck. It's by a lot of hard work, detailed engineering, collaborating in this case with NVIDIA and our customer to be able to take out every ounce of time and run at the speed of light, so to speak. So we're going to continue to invest in that differentiation. We're going to continue to make us stand out to be different. Our customers really value the full range of our capabilities.

They like the notion of a one place to go. I'm not sure others bring that. I know we do, and I know we're extracting value from the marketplace for that with our customers and our deployments.

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**Operator**

Simon Leopold, Raymond James.

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**Simon Leopold** - Raymond James - Analyst

I was wondering if you could give us your thoughts on your exposure to the US federal government. Basically, how big is it typically as a percent of your revenue? And how are you thinking about the trend given all the noise we hear out of Washington around budget cuts and spending cuts?

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**Yvonne McGill** - Dell Technologies Inc - Chief Financial Officer, Corporate Controller

So Simon, I'll take a pass at that. We do business in 170-plus countries around the world. Obviously, our largest country is the United States, and we do business with the federal government. But I can't really parse out exactly what you're asking for. We're certainly going to lean into all opportunities that are ahead of us and continue to be successful in that space.

**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

No, I would add to what Yvonne said. We've had numerous times in our history where a country or a particular segment demand was suppressed for various reasons. We've been able to navigate the cycles, I think, pretty successfully. Our underlying belief is United States government will need technology. AI plays a pretty significant role in our nation.

And I think the demand will materialize. We'll get through whatever is happening today. And we have a broad business to be able to do that. Whether it's PC, servers, storage, AI solutions, our services making it up in other parts of the world, other parts of the United States, we've again proven we've done that consistently, and we'll do so here.

**Yvonne McGill** - Dell Technologies Inc - Chief Financial Officer, Corporate Controller

We can help drive efficiencies in every environment. So excited about the opportunity ahead.

**Operator**

Aaron Rakers, Wells Fargo.

**Aaron Rakers** - Wells Fargo Securities, LLC - Analyst

Just building on Erik's question, I'm curious, Jeff, as we really start to see the materialization of the Blackwell product cycle through your AI backlog, I'm curious, when you're engaged in like rack scale configurations, how would you compare the margin profile of those relative to the AI business on, let's say, the Hopper product cycle? And can you talk a little bit about the levers that you see to improve that margin as we move through 2025?

**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

Sure, Aaron. I think I mentioned in the last call that the Blackwell margins were lower than the Hopper margins and remains so today. We're still early. The deals are very large upfront. There's more competitors, so it's a more competitive landscape.

And I'll probably sound a little redundant with the last answer with Erik. Look, this is custom design and architecture work. There's an ability to really distinguish our engineering and value add in that step, which is an opportunity for us to extract value and opportunity for us to reduce cost. These aren't reference designs or as we would affectionately call in the engineering community, they're not cookie-cutter designs. We're designing a unique rack, a unique power distribution unit.

Our cooling, our manifold, the cold plate, the ability to engineer that and to drive that through the scale of our supply chain are opportunities for us, helping our customers attach with our networking with our storage or opportunities. And while still small, it remains an opportunity because every large cluster, and for that matter, every AI workload requires data to fulfill its need. Services, installation, deployment, those are value-add

opportunities for us that we continue to build on, and then obviously, the ability to be a time-to-market advantage. Those are areas that we continue to focus on. They drive differentiation.

I think Yvonne and I have been consistent for the better part of the year that AI servers are margin rate-dilutive. They are margin dollar-accretive. They are operating margin-positive. They are profitable for us. And what's really interesting for us, if we take the work that we're doing in these large clusters, it really scales nicely to the enterprise.

It allows us to really take the efficiencies and learnings from what we're doing with the largest clusters in the world and build optimized solutions for very specific domain-specific AI use cases. And our experience to date is the AI margins in enterprise are better, and I think they'll continue to be, and that's what we're focusing on.

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**Operator**

Michael Ng with Goldman Sachs.

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**Michael Ng** - Goldman Sachs - Analyst

I just have one on the ISG margin outlook of flat year-over-year for the upcoming year. It's a great outlook, particularly considering AI server revenues growing 50%. So can you talk a little bit about the expectations for margins for some of the components, traditional servers, storage AI servers? I'm just trying to understand the ability to keep ISG margins flat despite presumably the dilutive effect from the AI server margins.

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

I think, Mike, maybe the way to look at this is the, first and foremost, as we think about holding ISG margins flat, I love the way that you asked the question, we're going to do that by growing at least \$15 billion in AI servers. I know your question is how we're going to do that. But for us, that's a very important mark that we're going to be able to meet that operating range that we've committed in our long-term framework and we're going to grow at a minimum of \$15 billion in AI servers. And we're going to do that by what we've done in traditional servers and what we've done in storage. The storage leverage that Yvonne talked about earlier is front and center.

When we grow the storage business and we control our expenses, scale matters, the operating margins improve. When we pivot to Dell IP storage, which we have done, our margins improve. The margins of our own IP are vastly superior than third-party IP. We've been doing that for some time. We made mention, I think, in our remarks about PowerStore.

It has grown four consecutive quarters on the van line, the last three, double-digit; in the largest space in the external storage marketplace, midrange. It has differentiated features. We're going to continue to leverage our IP storage. We're building out the customer base with our direct sales force and our partner-first channel program. We're continuing to invest in the innovation and differentiation in our storage.

And with our coverage, the broadest coverage in our industry, and the deepest specialty capability, we're going to continue to grow the customer base, which I might add, the PowerFlex customer base grew, the PowerScale customer base grew, the PowerStore customer base grew. And then lastly, we're looking to attach more storage to every AI opportunity that we have. Our traditional storage business continues to grow, 5 consecutive quarters of year-over-year growth. We've seen an expansion of TRUs as we see the consolidation continuing to occur in the data center to free up more floor space and become more power efficiency. We see our 16G and 17G products ramping nicely.

And those are driving, again, more cores, more memory, more SSDs, more margin dollars per server that we put in the marketplace. That's how we're doing it. If I missed anything, Yvonne...

**Yvonne McGill** - Dell Technologies Inc - Chief Financial Officer, Corporate Controller

No, I think you hit it.

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**Operator**

Ben Reitzes, Melius Research.

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**Ben Reitzes** - Melius Research - Analyst

Could you be more specific on the guidance for this year with regard to tariffs? What are you factoring in for China in particular? Is it the 10% or today, this morning's 20%? And then are you instituting any remedies? And what are your thoughts about remedies like raising prices, moving stuff around?

And how are you adjusting for that?

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

Well, Ben, maybe I'll take a swing at it, and Yvonne can clean up on this one here. Whatever was announced this morning, which we know things were announced this morning is not reflected on what we just said. That said, this is a pretty darn dynamic environment as represented what we heard this morning. It's fluid. We built an industry-leading supply chain that's globally diverse, agile, resilient that helps us minimize the impacts of these trade regulations, tariffs to our customers and shareholders.

We've been monitoring this for some time. We've taken our digital supply chain, our digital twins actually using some AI modeling to look at every possible scenario that you might imagine of what might happen, this country, that country, restrictions here, rates here, to help us understand how we optimize our network and how we do that in the least amount of time at the speed of Dell, and whatever tariff we cannot mitigate, we view that as an input cost and as our input costs go up, it may require us to adjust prices. That's what we've done in the past. I can't imagine we're going to do anything differently. Yvonne, if I missed something.

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**Yvonne McGill** - Dell Technologies Inc - Chief Financial Officer, Corporate Controller

No, I think you hit it. We'll take into account the input costs and price accordingly in this competitive environment that we're operating in such, continue onwards.

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**Operator**

David Vogt, UBS.

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**David Vogt** - UBS - Analyst

Maybe just on ISG XAI. So if we take -- maybe Yvonne for you, if we take your kind of outlook at face value, it points to incredibly strong growth in traditional server and storage. I know you just posted relatively good numbers. But what are you seeing in the marketplace vis-à-vis your traction versus your competitors? And kind of how do we think about getting to high single-digit growth in that part of the business given sort of the macro environment that we just talked about?

**Yvonne McGill** - Dell Technologies Inc - Chief Financial Officer, Corporate Controller

So David, we are expecting to have growth across the full portfolio in ISG. We -- as I talked about, we're expecting to have storage growing in the low single digits, server higher than that and then the \$15 billion at least in AI servers. So I guess we'll continue -- there's lots of opportunities out

there where there continues to be multiples of what we've already seen. The pipeline continues to grow. I don't know, Jeff, what you'd add to that around ISG.

I feel confident and comfortable in the guide we've laid out for the full year and the opportunity that it has.

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

Yes. Maybe a little bit of color. Let's take storage as an example. You're seeing a pivot to our Dell IP storage. Modern workloads demand an architecture that can be flexible, sufficient, optimizes performance.

And we think a disaggregated architecture is the right answer with the modern workloads. That presents a headwind of our large position that we have in HCI, which will become smaller. But we're going to overcome that by taking share in our Dell IP storage portfolio across the board in the midrange. Our software to find project like -- or product like PowerFlex and then PowerScale in the infrastructure space. So I mean, I think that gives you a sense of a headwind that may exist there that on the surface may not be obvious, but it's certainly something that we're challenged as we pivot towards our storage, which is more profitable.

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**Yvonne McGill** - Dell Technologies Inc - Chief Financial Officer, Corporate Controller

I was going to say it's more profitable to do our own --

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

There's revenue that we'll see go away at a lower margin rate, the HCI business. We have a secular decline in the high-end space where we're the market leader with our PowerMax product. So we're going to overcome those and drive the growth that Yvonne mentioned. And then traditional servers, I don't know if you've seen some of the recent market forecast. It's low single-digit growth.

We're going to take share. We've now had five consecutive quarters of year-over-year growth that's coming off 8 quarters of a consolidation period -- or of a consumption period, I should say. And we think this consolidation continues. But the consolidation drives fewer units. Those units are actually higher in TRU because of the more cores, memory and SSDs I mentioned earlier.

And we continue to see that driving our traditional server business. I hope that context helped a little bit.

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**Operator**

Amit Daryanani, Evercore.

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**Amit Daryanani** - Evercore ISI - Analyst

I guess I have a question on free cash flow. In fiscal '25, it looks like your free cash flow is down a couple of billion dollars versus '24. Can you just talk about what's driving this contraction in free cash flow? And maybe, Yvonne, you can help us kind of understand how do we think about free cash flow expectations as we head into fiscal '26? What are sort of puts and takes around it?

It would be really helpful to kind of get the context, at least for fiscal '26, what's going on. And then, Jeff, if I could just have you talk a little bit more about -- well, I think it's really impressive that you focus issuing operating leverage in fiscal '26 despite the mix being negative. I think the fear everyone seems to have is, is this really durable? Or is it really driven by one-off head count reduction or something else. So just maybe you can touch on the durability of that would be great as well.

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

You go to, Tyler, then I'll come in on the durability of which structural changes--

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**Tyler Johnson** - Dell Technologies Inc - Senior Vice President and Treasurer

Amit, look, I think -- as I was sitting here last year, I definitely thought cash flow was going to be a little bit stronger. If you look at what played out, one, we didn't see the growth in CSG that we were expecting. And as you know, that firms off really good cash. And then two, we invested a lot in our AI business through inventory. And so you can see that our inventory has gone up, and that had a big impact to CCC.

Now if I look where I am today and I think about FY26, I would say I've got a few things working in my favor. So one, we're at a CCC level where historically, we've always shown improvement from here. And that will throw off good cash. We expect good CSG this year, and that will throw off good cash. And if I think about the growth in the P&L, that will throw off good cash.

So look, I think we feel pretty good about cash. I do expect it to be greater than 1 times. And so yes.

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

And then to your second question, I probably won't give you as much detail as you like because we think some of the changes we're making are very proprietary and differentiating us in the market, the fact that we can grow while reducing our operating expenditures, but Yvonne hit on it, Amit: simplify, standardize, automate. We are building a new company. We are what we call modernizing it. We've made reference to modernization. If you prefer, we're future-proofing the company, and we're systematically going throughout all of the value streams in the company.

And we are modernizing the work, the workflows, taking steps out of processes, taking out manual touches, simplifying and standardizing those processes, applying automation in the very technologies that we've talked about that get us excited in this marketplace, which is why we believe this AI thing makes its way to enterprise, we are deploying AI in the enterprise. The broad categories of use cases are industry-known, whether that's content creation and management, support assistance, natural language search, design and data creation, cogeneration or document automation. Those are broad enterprise use cases. We are deploying those types of technologies inside our company and seeing tremendous efficiency from that and it is durable. It's not a one-timer.

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**Yvonne McGill** - Dell Technologies Inc - Chief Financial Officer, Corporate Controller

What's so exciting as we're making all these changes, we're making investments. But we're driving all this efficiency to enable that. So the net, what you're seeing us guide to, is a lower spend, but it's because we're driving all of these efficiencies will enable us to invest OP spending.

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

Well, I think that's very important. I think I mentioned it in the remarks comment that we are reducing the cost. And we've built, if you will, the ability to invest more in our innovation engines, more in our areas where we drive distinct advantages. Our sales force, we've invested in our sales force over the past year, we've invested in services, we've embedded in the supply chain while reducing our cost.

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**Yvonne McGill** - Dell Technologies Inc - Chief Financial Officer, Corporate Controller

And it's just the beginning.

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**Operator**

Matt Niknam, Deutsche Bank.

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**Matthew Niknam** - Deutsche Bank - Analyst

My question is on CSG. I can ask about a different segment. The guidance implies an acceleration over the course of the year. And I'm just wondering what sort of visibility or confidence level you have there that this long-awaited PC refresh will finally materialize. And I ask that in context of a relative slowdown that was referenced in January.

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

Yes. Matt, maybe this will shed some optimism on why we believe that this refresh that we've talked about is in the making. I mean, clearly, we've talked about there's 1.5 billion or so PCs in the installed base. We'll say half of them are 4 years or older. It's got to flip 360 million PCs turned 4 years old that were bought in 2021 this year.

Those are normally flags for opportunity for refresh. But probably the more compelling reasons, and I think there are 2, we're 9 months away from the Windows 10 end of life. There's over 500 million PCs running today that can't -- running Windows 10 that can't run Windows 11. There's more than 200 million PCs today running Windows 10 that can run Windows 11. Those are prime targets for upgrades.

It's just a large pool of old machines running an older version of the operating system that could be upgraded. If you were to reflect on where we were with the Windows 7 end of life compared to where we are today, let's just say we have a long way to go in the next nine months to catch up and be ready for the end of life. We made reference that SMB for us had strength. That's always an indicator that things are beginning to move. One of the countries that really show a traditional or historical perspective that the refresh is underway is Japan.

If you look at the dynamics in the Japan marketplace, it is clearly moving through refresh as it will get done towards the end of October. And then probably the last thing and the most exciting thing and what is actually driving some of the, I think, reticence to refresh right now is AI PCs. And the number of new AI PCs that are coming out in the first half of the year, we clearly just launched a bunch of Lunar Lake-based notebooks in January. Suffice to say, there's more coming. We've announced AMD AI PCs.

Customers are going to want to look under the hood at each of those and then make a decision that will future-proof their decision of what is the right correct AI PC for them because they'll have the asset for at least 4 years. All of that makes us feel more confident that the refresh is coming, albeit delayed, slower than any that I've encountered in my career. But all of the data suggests it's there, it's coming, it's coming at a good rate and probably extends. Does that help?

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**Matthew Niknam** - Deutsche Bank - Analyst

It did.

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**Operator**

Ananda Baruah, Loop Capital.

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**Ananda Baruah** - Loop Capital Markets - Analyst

One for me, maybe two parts but related. Could you talk to, Jeff, how you guys are thinking about the server refresh durability? I believe, also last call, you talked about part of the current catalyst is sort of refreshing older PCs for space and power savings in some part to prepare for GenAI. And

this is ahead of processor refreshes, so I guess sort of the context of durability of the traditional server growth you see going on now. And then just the sort of add-on to that is you had mentioned focusing -- or targeting to increase attach -- storage to your GenAI servers.

Would just love what you're thinking about there. And what are the mechanics of getting that taken care of over time? That's it for me.

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

Sure. Let me try the server one again. as I mentioned, we're five quarters now of year-over-year growth that's coming off an eight-quarter digestion period. In our guide and what we're trying to articulate is that continues for another four quarters. So five quarters becomes nine quarters of growth, tempering a little bit.

Still driven by the same dynamics that you so well said is freeing up floor space and driving energy efficiency and cooling efficiency. The consolidation occurs, as you look at the installed base, and we have -- just Dell has a very large installed base of 13G and 14G servers all ripe to be replaced with the new 16G server and -- or 17G server. Those conversion rates are roughly a three to four of the old servers can be, if you will, replaced by a single 16G server, and 6 to 7 of the old servers can be replaced by a single 17G server. Why? Because they have more cores, they're more memory, more storage, they're more energy-efficient.

And again, that continues, we believe, throughout the fiscal '26, calendar '25. We've seen no signs that is going to go away from us in that period of time. If you flip over to your other question, again, the fundamental premises, AI needs data. It devours data. You got to feed the beast.

The feeding of that beast, if you will, has to be closer to where the computational capability is. So hot and warm storage, the notion of parallel file systems, unstructured file systems, data management tools that help find data and help data be ingested are the opportunities. We have the leading platform for unstructured data. We continue to make it better with the F910 and 710 that I mentioned earlier. Nearly a year ago, we talked about a parallel file system that we are building, Project Lightning, we referred to it.

So we're coming to the marketplace with a AI-driven parallel file system. And our Dell data lake house allows us to help customers prepare their information, manage their information and just their information. Our sales force is incented to attach storage with AI opportunities. They will continue to be incented and we inspect that, and we continue to see progress in that area.

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**Operator**

Samik Chatterjee, JPMorgan.

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**Samik Chatterjee** - JPMorgan - Analyst

Jeff, I just wanted to go back to some of your prepared remarks and -- about the \$15 billion of AI server revenue that you were highlighting that you at least expect to grow to that level. Just wondering, how much of that is gated by supply, particularly versus the visibility into supply that you're getting? And how much of that commentary around sort of at least growing there is a supply dynamic versus a demand dynamic? And should we be expecting more sort of linear growth for the quarter as we think about the -- with visibility on supply?

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

Well, I think clearly, Hopper supply is available today. I believe there is references yesterday that Blackwell is in production and ramping. We're open for business and taking orders. The message that I really wanted to drive in our remarks is on day 27 of the fiscal year, we're trying to communicate that we are at least \$15 billion in AI shipments. Our 5-quarter pipeline continues to grow.

It's several multiples of our backlog. We are going to pursue every opportunity with the CSPs and in enterprise. These large-scale systems are accelerating and getting bigger. Models are quickly moving to reasoning models, which consume and require more computational capability, i.e., more computers. And the use cases continue to get clearer for enterprise to drive the return on investments they want to see to actually use AI more broadly.

Algorithm innovation continues to accelerate. Again, these reasoning models are -- will consume more computational capability. They're moving to be multimodal, which even consumes more. I kind of like where this is going. We're optimistic. I don't see supply as an issue.

Clearly, these are about building the right architecture. There's a customer preparation or customer readiness component of this, new data centers getting powered, getting water, getting cooling. There's other materials beyond the GPU, getting the rack, getting the cold plates, getting the CDUs, the PDUs, all of that is what we orchestrate. We have line of sight that is at least \$15 billion. We'll continue to update as that might change.

And we're all in. I don't know what else I can tell you. I hope that helped.

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**Paul Frantz** - Dell Technologies Inc - Vice President, Investor Relations

Thanks a lot, Samik. Justin, we'll take one more question, please, and then we'll hand it over to Jeff for a close.

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**Operator**

Our final question will come from Asiya Merchant with Citigroup.

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**Asiya Merchant** - Citi - Analyst

Jeff, if I can just ask about your pipeline and the backlog itself, I mean to the extent that you see enterprises and sovereigns in that makes -- how has that changed, say, relative to a quarter ago and how you see that progressing as you ramp up or as you flush through your pipeline and your backlog?

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

Well, it's maybe slightly repetitive to the previous question. The 5-quarter pipeline grew quarter-over-quarter and has grown every quarter since the 9680 was launched. The CSP component grew, the enterprise component grew, the enterprise customer base grew, sectors like education, technology, manufacturing and government grew. Our buyer base in AI continues to grow, what we shipped in Q4. The revenue in Q4 was up.

The number of new buyers was up. We're well over several -- a couple of thousand of unique customers. So it has a healthy mix of enterprise. It clearly has a healthy mix of CSPs. It continues to grow to this notion of several multiples.

It's with the technologies that are out and available today, and we're excited to see that. And quite honestly, I can't remember the second half of your question. So if you'll refresh my memory, I will answer it.

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**Asiya Merchant** - Citi - Analyst

No, that's good. And then just to the extent that you see your attach with those enterprises, how much of that is really factored into your fiscal '26 guide?

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

To the best of our ability, we factor in the attach of services, our professional services, our deployment services, our installation services, the ability to sell networking and network installation, the ability to sell storage. It's an all-inclusive number when we look at that at least \$15 billion of AI servers in the marketplace -- shipped in the marketplace.

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**Paul Frantz** - Dell Technologies Inc - Vice President, Investor Relations

Asiya, thank you, and handing it over to Jeff for our close.

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**Jeffrey Clarke** - Dell Technologies Inc - Vice Chairman of the Board, Chief Operating Officer

Sure. Thanks, everybody. I hope you can tell FY25 was a strong year. We delivered 8% revenue and 10% EPS growth with \$3.9 billion in capital returned to shareholders. Our AI business grew with \$10 billion of shipments - while also improving ISG margins year over year.

In FY26, we expect to grow revenue and EPS in excess of our long-term value framework. We expect our AI business will grow to at least \$15 billion given our robust opportunity pipeline, our engineering, our services and financing advantages. This AI business drives incremental operating profit and is EPS-accretive. We'll continue to modernize the company, reducing operating expenses as we grow, driving further leverage in the P&L. We remain committed to our capital allocation framework, where we've announced an 18% increase in our annual dividend, and our share repurchase authorization increased by \$10 billion.

We're excited for the year ahead. Thanks for your time today.

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**Operator**

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

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