

TRANSCRIPT

DELL – Q3 2026 Dell Technologies Inc Earnings Call

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PRESENTATION

Operator

Please stand by. Good afternoon, and welcome to the fiscal year 2026 third-quarter financial results conference call for Dell Technologies, Inc. I'd 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 the prior written permission of Dell Technologies is prohibited. (Operator Instructions)

I'd now 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 earnings materials are available on our IR website, and I encourage you to review these 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 measures refer to non-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 their 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 our 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 and Chief Operating Officer

Thanks, Paul, and thanks, everyone, for joining us. Before we get started, I'd like to congratulate David on his appointment to CFO. We've worked together closely for the past couple of decades, and I look forward to what's ahead.

Now, moving to our results. We delivered a strong third quarter with a record for both revenue and earnings per share and an all-time high in AI server orders. Total revenue reached \$27 billion, up 11%. CSG and ISG combined were up 13%. Year-to-date total revenue is up 12% with ISG revenue up 28%. EPS was up 17% to \$2.59 driven by improved profitability in AI and storage and continued operational scaling. Our strong performance and operational discipline led to continued robust cash flow and significant capital returns for shareholders.

Now let's move to AI, where momentum has accelerated meaningfully in the second half of the year, building on an already strong first half. AI server demand remained exceptionally strong. We booked \$12.3 billion in orders in the quarter, bringing year-to-date orders to \$30 billion, both record figures. The large-scale customer base continues to broaden with expansion across neocloud or Tier 2 CSPs and sovereigns.

Our strong orders and customer base expansion clearly shows customers value our unique ability to design, deploy, and maintain large at-scale AI factories, especially our engineering and rapid deployment capabilities. We have AI racks operational within 24 to 36 hours to delivery with uptime succeeding 99%. We shipped \$5.6 billion in AI servers during the quarter for a total of \$15.6 billion year to date. We ended the quarter with a record backlog of \$18.4 billion.

Our five-quarter pipeline continued to grow sequentially across neocloud, sovereigns, and enterprises, and remains multiples of our backlog, even when accounting for the robust demand we've seen. As expected, AI server profitability improved sequentially.

Moving to traditional servers, overall demand grew double digits, with growth accelerating sequentially in both EMEA and North America. We saw growth across units, TRUs, our buyer base, and the mix of the 16th and 17th generation platforms, reflecting customers' preference for dense, high-performing compute configurations. Traditional X86 compute demand continues to benefit from workload expansion and AI driving broader IT modernization and consolidation.

Moving to storage. While revenue declined 1% year over year, demand for our Dell IP portfolio remained strong. For two consecutive quarters, our all-flash array portfolio has delivered double-digit demand growth, supported by strong double-digit growth from PowerStore, PowerMax, ObjectScale, and PowerFlex.

PowerStore demand has now grown for seven consecutive quarters, with six quarters of double-digit growth. Profitability improved as we increased both the mix and margin of Dell IP offerings, underscoring the differentiated value of our platforms.

In CSG, we saw momentum continue. CSG revenue increased 3% with commercial up 5%. International growth accelerated sequentially, up double digits year over year. North America also showed improvement. Demand for small and medium business remained strong, and we now have five consecutive quarters of P&L growth and seven consecutive quarters of commercial demand growth.

Consumer revenue declined 7%, although the demand environment turned to growth, as we refocused on expanding what we play in the market. Commercial profitability was stable, while consumer and education were competitive. The PC refresh cycle remains durable, supported by an aging installed base and a significant portion of systems not yet upgraded to Windows 11.

And before I wrap up, I'd like to briefly touch on the commodity supply environment. We are well-positioned across our commodity basket. Q3 was deflationary, and our outlook for Q4 is largely unchanged from last quarter. Looking ahead to next year, there will be dynamics that we will have to navigate, but we are confident in our ability to secure supply and adjust pricing as needed. As always, we'll leverage our world-class supply chain to deliver the best outcomes for our customers and shareholders.

In closing, we delivered a record third quarter, with strong performance across all segments and continued operational discipline. Revenue and EPS reached Q3 highs, supported by growth in ISG, CSG, and improved profitability in AI and in storage. AI momentum remains exceptional with record orders, backlog, and a growing, diverse customer base.

Our competitive edge in AI is our ability to engineer bespoke, high-performance solutions, deploy large-scale clusters rapidly, and support them globally, all backed by an unmatched ecosystem and flexible financing offerings. This end-to-end capability is why Dell continues to win in AI. We are well-positioned to capitalize on AI infrastructure build-outs, expanding traditional infrastructure demand, and the ongoing PC refresh cycle.

Now let me turn it over to David to talk more about Q3 in detail.

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Thanks, Jeff. I'm pleased with the team's strong execution this quarter, delivering Q3 records for both revenue and EPS, along with strong cash generation and above-trend capital return.

Total revenue was up 11% to \$27 billion. ISG and CSG combined grew 13%. Gross margin was up 4% to \$5.7 billion, or 21.1% of revenue. Gross margin rate was driven primarily by a mixed shift to AI servers, with shipments doubling year over year, partially offset by improved profitability in storage. Operating expense was down 2% to \$3.2 billion, or 11.8% of revenue as we continue to drive scale within the P&L.

Operating income grew 11% to \$2.5 billion or 9.3% of revenue. The increase in operating income was driven by higher revenue and lower operating expenses, partially offset by a decline in our gross margin rate. Q3 net income was up 11% to \$1.8 billion primarily driven by stronger operating income. And our diluted EPS increased 17% to \$2.59, a Q3 record.

Moving to ISG. ISG revenue was at Q3 record \$14.1 billion, up 24%, marking seven consecutive quarters of double-digit revenue growth. Servers and networking revenue reached a Q3 record \$10.1 billion, up 37% and is up 43% year to date. AI server demand accelerated with a record \$12.3 billion in orders, \$5.6 billion in AI server shipments, and a record-ending backlog of \$18.4 billion.

In traditional servers, we saw demand improve throughout the quarter and stability within the P&L. Storage revenue was \$4 billion down 1% with strong demand across parts of our Dell IP portfolio. PowerStore continued its double-digit growth trajectory with seven consecutive quarters of

ISG operating income was a Q3 record \$1.7 billion, up 16%, marking six consecutive quarters of double-digit growth. This was driven primarily by higher revenue. Our ISG operating income rate was up 360 basis points sequentially to 12.4% of revenue. This improvement was driven by mix of AI servers, sequential improvement in AI server margins, and stronger profitability from storage.

Turning to CSG, CSG revenue was up 3% to \$12.5 billion. Commercial revenue grew for the fifth consecutive quarter up 5% to \$10.6 billion, while Consumer revenue declined 7% to \$1.9 billion. CSG operating income was \$0.7 billion, or 6% of revenue. Commercial profitability was stable, driven by steady pricing sequentially as customers prioritized rich configured AI-ready devices. In Consumer, profitability improved year over year and demand returned to growth.

Moving to cash and the balance sheet, we delivered another strong cash quarter, with cash flow from operations of \$1.2 billion. This was primarily driven by profitability and working capital improvements. We ended the quarter with \$11.3 billion in cash and investments, up \$1.6 billion sequentially. Our core leverage ratio is 1.6x. We returned \$1.6 billion of capital to shareholders, including 8.9 million shares of stock we purchased

at an average price of \$140 per share and paid a dividend of approximately \$0.53 per share. Through three quarters, we have returned \$5.3 billion and repurchased over 39 million shares.

With record Q3 results in hand, I'm now walking you through our outlook for Q4. In ISG, we expect to ship roughly \$9.4 billion of AI servers in Q4, a record, bringing full-year shipments to roughly \$25 billion or over 150% year over year. Our Q4 outlook for traditional server and storage remains unchanged from last quarter, supported by continued data center modernization and consolidation and above-market growth in Dell IP storage.

In CSG, with the ongoing PC refresh cycle, we are improving our execution to drive revenue growth and gain market share. Given that backdrop, we expect Q4 revenue between \$31 billion and \$32 billion, up 32% at the midpoint of \$31.5 billion. ISG and CSG combined are expected to grow 34% at the midpoint, with ISG growing mid-60s and CSG up low- to mid-single digits.

Operating expenses will be flat sequentially. We expect operating income to be up roughly 21% with continued sequential improvement in ISG operating income rate. We anticipate a diluted share count of roughly 672 million shares and an 18% non-GAAP tax rate. Our diluted non-GAAP EPS is expected to be \$3.50 plus or minus \$0.10, up 31% at the midpoint.

Our Q4 guidance implies a strong FY26 with revenue of \$111.7 billion, up 17%, and non-GAAP EPS of \$9.92, up 22% at the midpoint, both well above our long-term framework. And briefly on FY27. It's still very early in our planning process. We wanted to give you some context on how we are thinking about next year. We have strong conviction in our AI business, support about what we see in our backlog, the pipeline, and ongoing customer discussions. We've proven we can execute and deliver for our customers in this space.

For the rest of the business, the long-term framework we outlined at our securities analyst meeting remains a solid starting point as you think about next year. We are highly confident in our ability to drive EPS growth, supported by multiple levers, including leveraging our go-to-market engine, improving gross profit, scaling operating expenses, and ongoing share repurchases.

In closing, we delivered a record Q3 with revenue of \$27 billion and EPS of \$2.59, both quarterly highs, driven by strong execution across ISG, CSG, and discipline cost management. ISG continues to see sustained double-digit growth and accelerating AI demand, evidenced by \$30 billion in AI server orders over the past three quarters. We are focused on capitalizing on the ongoing PC refresh and expect continued growth from CSG. We remain focused on driving shareholder value through strong cash generation and capital returns.

Thank you all for your time. Now I'll turn it back to Paul to begin our Q&A.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, David. Let's get to Q&A.

QUESTIONS AND ANSWERS

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

(Operator Instructions)

Operator

Samik Chatterjee, JPMorgan.

Samik Chatterjee - JPMorgan Chase & Co - Analyst

Maybe since this is sort of the topic of investor conversation mostly at this point, if you can flesh out your thoughts on the kind of reaction you expect from customers in relation to the pricing discussions by sort of the product categories. Where do you think it's more sort of easier to take some of those pricing actions versus not related to your overall portfolio?

David, if I heard you correct, you're saying to sort of use your Investor Day targets for about mid-teens EPS growth as still a starting point for next year, despite those sort of dynamic sort of headwinds on the memory side. Can I just clarify that as well?

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

Samik, let me wade my way through that. I suspect it will be the first question this afternoon, or the only question I should say.

Look, we're in a very unique time. It's unprecedented. We have not seen costs move at the rate that we've seen. And by the way, it's not unique to DRAM. It's NAND, it is hard drives, leading edge nodes across the semiconductor network. There is a – if you will, I'd categorize it as demand is way ahead of supply. And as we wade our way through that, we're going to lean on the things that we've always done.

We have a lot of experience with this. This isn't our first DRAM cycle. There have been seven, I think, in the last 40 years. Michael and I have been here navigating the organization in various ways through that time. Our senior leadership team and our supply chain has been through every one this decade.

First rule of our supply chain is to get the parts. Supply matters. Mix matters. And as we get to supply and mix, our job is to minimize the impact of that to our customers. But clearly we're in a situation that is not typical. We've learned a great deal since COVID, since previous cycle of this last super cycle of this magnitude was 2016 through 2017. And we're going to do everything we can to minimize the impact.

But the fact is the cost basis is going up across all products. No one more unique than others. Everything who uses a CPU has DRAM, has storage in it. So with that said, we're going to do things we've always done. We're going to work on configurations. We're going to work on availability, adjust mix. Our direct model allows us to move demand where supply is. Our direct model allows us to act to the market signals it gives us quicker than anybody else, allows us to price accordingly, reprice when needed. And we will make our way through that across consumer PCs, commercial PCs, in the server, storage, and through our AI servers.

No product category is not going to be impacted in terms of the aggregate cost basis moving. Again, our number one rule is get parts. Secure supply, secure the mix we need to meet the customer demand. The world needs more computational intensity, needs more compute. If you're in the world of AI, token growth is going. We see a consolidation in servers. Consolidation in servers is driving denser servers with more DRAM, more storage.

And we're in the middle of a PC refresh that's not complete. So I don't see how we will not – what's the best way to describe it? I don't see how this will certainly not make its way into the customer base. We'll do everything we can to mitigate that. As we mentioned earlier, our cost outlook for Q4 is largely unchanged. And David just gave you what our guidance is that we believe that you'll see sequential profitability improvement in our company across the broad portfolio while managing an increase in our cost basis.

That's what we're going to do. That's what we know how to do. And we have all of the tools in our company to be able to do that effectively and fast.

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

And David?

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Like we said, it's very, very early in our planning process, obviously, but the framework from our security analyst meeting is it's a good reference point to start with. So I think EPS included in that is the zip code we'll be in. We'll be looking obviously to leverage our go-to-market engine, which is differentiated. All the things Jeff has just outlined there in relation to our supply chain.

We'll continue to drive significant scale in our OpEx. And then obviously stay committed to our capital return KPIs, right? Whether it's share repurchase or stay committed to our dividends. So look, we feel we have many tools in that toolbox that allow us to stay agile and deliver on our EPS numbers. But like I said, it's still very, very early in the planning process here.

Operator

Mark Newman, Bernstein.

Mark Newman - Sanford C Bernstein & Co LLC - Analyst

Congrats on a great quarter, particularly impressive on the AI server orders. I wondered, on AI servers, if you could talk about some of the recent comments that have been coming from NVIDIA around the potential for vertical integration that they're doing, getting a little bit more involved in the supply chain and how that may impact – or how Dell is navigating around that?

And also on AI servers, any color on the mix of AI servers? Any change on the mix? For example, enterprise as a portion of AI server orders would be useful.

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

Mark, let me make my way through that. First of all, as we look forward to the new technologies that are in front of us, we remain excited. We think there's ample opportunity for us to continue to differentiate. These large-scale deployments are very complex. Our value-add is at the rack level, is at the solution level, L11 and beyond.

That differentiation, we believe, remains for the next several cycles easily. In fact, our ability to engage with customers early, which we can on the next-generation technology to work through their needs to bring these very complex offers to the marketplace fast and at scale with a significantly better uptime and outcome, we believe is differentiation. We focus on optimizing performance per watt, performance per dollar at the data center level. We focus on our services, our value-add and deployment, our financing side, the ecosystem that we bring to our customer base.

None of that changes in the next generation of technology. And to be honest, I think the opportunity for us gets greater in the future as we head towards 500 kilowatts of rack of power density moving to a megawatt and beyond. The engineering skill required to do that at rack scale is significant. We've invested in that ahead of the curve, and we believe that gives us the opportunity to differentiate, remain the leader in time to market, drive broad installation and deployment capabilities ahead of our competition at a higher level, uptime of 99% or better.

That's why we win, and I don't see that changing. When I look at the mix, two forms of the mix that I'll address is we saw a change in the quarter towards GB300. So in our backlog of \$18.4 billion, there's been a significant shift towards GB300 as expected. And then lastly, we continue to see great build on our five-quarter pipeline around sovereigns and around enterprise and remain very encouraged about the opportunities in both.

Operator

Ben Reitzes, Melius Research.

Ben Reitzes - Melius Research LLC - Equity Analyst

Good execution with the commodity environment, guys. And I'll try to be concise for Paul. The question is around your AI server margins. You mentioned it was up sequentially. I was wondering if you guys can talk about, you know, order of magnitude there? And is that going to continue into the 4Q? And are you starting to see more product attached, more high margin attached to that end?

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

I'll take a run at it, Ben, and then David can certainly add to this. Clearly, we made reference in Q2 that we had some one-time cost elements that hit us. If you recall, we talked about expedites and supply chain reconfiguration. Those went away in Q3 as expected.

We also talked about shipping a lot of the early aggressive GB200 deals in the quarter. Those went through the system. And we continue to now see the ability to add differentiation, as I just mentioned, in the previous question that we see in the GB200 and 300 designs and our margins move to, say, right in that range that we've talked about, mid-single digits.

We see that continuing as part of our long-term value creation framework that we laid out eight weeks ago. It's what we'll continue to talk about here. And we believe that we can operate, going forward, in that range. In fact, we're very confident of that.

And then we also had a mix change, or if you will, a change in customer mix to the good. When you look at the broad portfolio and diverse customer set that we have within the AI portfolio, shipping to a broader set of customers across a greater range of solutions helps margin.

Hope that answered your question about AI margins.

Operator

Erik Woodring, Morgan Stanley.

Erik Woodring - Morgan Stanley - Analyst

I wanted to touch on PCs. Jeff, you sound very bullish on the PC opportunity into next year. Some of the channel partners earlier in earnings were talking about maybe the seventh inning of a PC refresh, and I'd love to just get your comments because you sound more bullish.

So where do you think we are on the PC refresh? And is that still Windows end-of-life upgrades that still need to get done or are there new factors that you think could elongate the PC cycle well into 2026?

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

A couple of things. One, we have not completed the Windows 11 transition. In fact, if you were to look at it relative to the previous OS end-of-service, we are 10, 12 points behind at that point with Windows 11 than we were the previous generation. So we still have ample opportunity to convert.

If memory serves me right, the installed base is roughly \$1.5 billion – 1.5 billion units. We have about 500 million of them capable of running Windows 11 that haven't been upgraded. And we have another 500 million that are four years old that can't run Windows 11. Those are all rich opportunities to upgrade towards Windows 11 and modern technology.

Equally important, AI PCs, small language models, more capable applications, improvements in operating systems and their capabilities in the embedded AI there, the use of an MPU, The capability of the NPU and future PCs gives me the view that the PC market will continue to flourish going forward.

Now let's define flourish. We have the PC market in our outlook roughly flat year over year. That's after a year that we grew mid-to-high-single digits. I think it's flat as we look into next year's planning horizon and we're building plans accordingly that would take share against that outlook.

Operator

Wamsi Mohan, Bank of America.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

I was wondering if you could just maybe give some color around this AI business. You noted very strong conviction going into fiscal '27. Obviously, you just raised your guide here from \$20 billion to \$25 billion. Can you just put that in context of some of the financing issues at neocloud and how much of sort of your conviction and growth is predicated on some of these neoclouds being able to procure financing versus maybe other customers that you might have visibility into?

And Jeff, if you could just clarify, you mentioned the cost base moving up across the product portfolio, and I was wondering if you could maybe just share the highest level. How much of that conceptually could you recover from pricing versus how much of OpEx reductions are possible to offset some of these pressures?

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Maybe I'll start once and Jeff can add some color. I think if you start answer first, you look at our Q4, guidance, \$9.4 billion. That represents \$25 billion, obviously, for a full FY25. So you look at that appetite for AI demand, and it's across the neoclouds, sovereign opportunities, and obviously, within the enterprise. Shipments of \$5.6 billion in Q3, orders at \$12.3 billion. That's year-to-date at \$30 billion. Backlog at \$18.4 billion. And as Jeff referenced in his opening remarks, the next five-quarter pipeline is multiples of that.

So every conversation we're in, which is also has been very aware of all the opportunities that are out there, is about demand. It's about opportunity and eagerness to work and see the opportunities in front of us. So we actually see new scale to come. Every opportunity, realities, we're not going to win them all, but we love our momentum that's there. And we think we're well positioned to meet the expected needs of the customer base.

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

Yeah, I would add to that maybe some color. \$25 billion this year, 150% increase over last year. The guidance that David called out, we will ship nearly as much in Q4 as we did all of last year. I think that gives a reflection on the need for compute, the need for what we see as token generation increasing at an incredible rate, and the corresponding compute that has to be behind that to generate those tokens.

It's reflected in that five-quarter pipeline that David said that is up across all three customer types, neoclouds, sovereigns, as well as enterprises. And we're seeing progress in all three. So I think that's very important for us to make sure that we communicate that the momentum as we head into Q4 continues. You saw that in the orders in Q3, the backlog building and significant shipments in Q4.

But I flip to the other question about the cost basis and our ability to recover. That's an interesting question. We've said over the years, in normal times, when our input costs go up, we can recover roughly two-thirds of that cost in a 90-day period. I would tell you this is not normal times. This is extraordinary times, and we've put extraordinary actions in place weeks ago as we saw this to be able to mitigate the impact upon our company, our customers, and our shareholders.

And again, it goes back to our business model, direct signals. We understand the demand, our long-term partnerships and agreements with our partners that make DRAM and make NAND, the agreements we have in place around capacity, those relationships are meaningful and impactful as we navigate these types of situations that again, that are unprecedented. And then our model gives us tremendous flexibility, whether that is

to reprice, whether how we set up quotes, whether that's to reconfigure, redirect to different products, the ability to determine how long price will be in effect, the ability to understand where we're going to drive demand to and change our demand generation vehicles to drive that.

It's important that our engine and the way we run, I think, is very different than others in our ability to respond. And those of you that took note, you saw that in COVID in a very similar situation. The experience that we had there where there was material shortages and increased costs, our ability to navigate that, I think, was unmatched in the marketplace. Our supply chain is very good at this, and we're going to lean on them. Those lessons learned from the COVID time and most recently what happened with tariffs, I think show that we can operate with the right sense of urgency. We're managing this real-time, actively managing it. I was on three pricing calls today alone, and we're driving to get a better outcome. So our belief is we will do better than our normal two-thirds in a 90-day period, given the actions that we've put in place and our understanding of demand and our understanding of supply.

Operator

Amit Daryanani, Evercore.

Amit Daryanani - Evercore Inc - Equity Analyst

I guess maybe you could just spend a little bit of time on ISG margins improved rather well by about 350 basis points sequentially. Can you just touch on what drove the trends in ISG margins in Q3 versus Q2? And then your guide, I think, reflects the largest AI server revenue number you guys are going to put up in Q4 at \$9.4 billion-plus.

How should we think about that impacting your P&L? And do you think gross margins should remain in the Q2 levels, or is there kind of further movement from there as you think about the P&L impact from the AI numbers in Q4?

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Yeah. Thanks, Amit. Yeah, I'm really pleased with the team's execution in Q3 around ISG OpInc. At 12.4%, like you said, up 350 basis points quarter on quarter, so a lot to like here.

I guess a couple of things to call out. First, on the storage side. Look, Q3 was no different than what we've seen year to date, where we've seen demand growth at a premium-to-market for our Dell IP storage portfolio. You know, probably a strong call-out there will be PowerStore also, six consecutive quarters with double-digit growth. So obviously that Dell IP portfolio gives us better operating margins, as you'd expect. So there's a natural mix effect that creates a tailwind there.

Secondly, in storage, our pricing discipline was something I was very pleased with also. And then thirdly, look at the focus of the teams looking to find improvements at a by-product level within the portfolio also. So again, like I said, a lot to like on the storage side.

Also within that, on the AI margins, like Jeff said earlier, Q3 on track to what we've consistently committed to, mid-single digit OpInc here in relation to that, and we obviously didn't have those Q2 one-timers that were there, and we'll keep that consistency as we go into Q4.

And then your reference, I think your question was Q3 into Q4, then from a guidance perspective. We expect to continue to make progress. Our Q4 profit guidance is anchored again through the storage P&L. With the Dell IP storage growth, we expect to make it four for four in terms of quality growth in that portfolio. That should allow us to grow at our likely slightly ahead of normal sequential, which will allow us to see an uptick in our operating rates sequentially also in Q4.

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

Yeah. Amit, I'd just begin to emphasize that AI shipments 5.6 to 9.4 quarter over quarter, our strategy of focusing on Dell IP storage. The mix is up. The rate is up. And increased velocity of our traditional server business is the recipe for the performance that we expect to have in Q4, while increasing AI shipments significantly, as we mentioned.

Operator

Aaron Rakers, Wells Fargo.

Aaron Rakers - Wells Fargo Securities LLC - Analyst

I want to shift gears a little bit away from the AI to the more traditional server business. Jeff, I think in your prepared comments you've mentioned double-digit demand growth. I think if my math's correct, I don't think revenue grew necessarily at that clip.

So I'm curious if you could talk a little bit about what you're seeing as far as the age install base, where we're at in the upgrade cycle for traditional servers? And do you think double-digit growth is a good baseline that we could think about going into fiscal '27 as that demand follows through to revenue?

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

A couple of comments, yes. So the double digit was demand. The P&L certainly didn't track that, but we obviously would have built backlog as a result. We talked about North America recovered or improved quarter over quarter, and that the international market demands were double digits, and that's two in a row now off last quarter's double-digit performance.

We continue to see modernization in the data center, consolidation in the data center, which is reflected in the fact that our TRUs continue to go up, our content continues to go up, the number of cores, how much DRAM, how much NAND per server is corresponding with that. And we still see a pretty significant opportunity with roughly 70% of our install base is still the older generation servers that we have shipped many years ago.

So the ability to continue to upgrade them, modernize them, is the opportunity that we have in front of us. And we see that cycle continuing into next year. This has been a longer consumption cycle. We're encouraged by what we see. That's reflected in the Q4 guidance that we just talked about. And that momentum, as we update you on '27, will give you the best look we have.

But right now, that momentum of consolidating, modernizing, refreshing old servers to new one continues. And we're working on making sure our pipeline grows and we can convert it into orders as quickly as we can.

Operator

Michael Ng, Goldman Sachs.

Michael Ng - Goldman Sachs Group Inc - Analyst

I just wanted to follow up on the commodity cost recovery point, which was, you know, encouraging to hear. When you talk about the actions that you've taken to help mitigate the impacts, you know, I guess, do you expect to see a benefit from below market costs, strategically purchased commodities? And if so, you know, how long can that be a benefit for?

And I think you may have alluded to, you know, opportunities to maybe like reprice longer-term commercial contracts in response to the rising commodity costs. Just wanted to see if that was the case? Or are there any kind of longer-term contracts that might inhibit your ability to price at all?

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

Well, I mean, maybe working backwards towards the first parts of your questions. Being clearly, we have to do what's right by customers. And where we have contracts, we have contracts and we will honor those contracts and work through the situation.

I think what maybe I didn't convey correctly or to the right balance that's needed is we tend to talk about the commodity cost here. There's a commodity scarcity too. In other words, there's not going to be enough parts. So there's a combination of the demand that's in the marketplace, one's ability to procure the part, which is why job one of our supply chain is to get the material never run out of parts, and then price it to the commensurate value of having that material.

That's what we're going to work our way through. We're, I think, very skilled at this. The last two cycles have certainly honed our skills, and we'll use all of the tools available from configurations. It's not uncommon in the PC industry to see configurations come down. That's happened before. Likely to happen again. That tends to happen in the lower price bands.

You tend to see mix where what comes out of the factory isn't necessarily what was forecasted. We think we have a unique ability to adjust our demand faster than anybody. We think the ability to navigate how you price with a very large transactional business selling to small and medium businesses, selling to the day-to-day needs of many corporations, we can adjust that to what's available. Those are all skills and techniques that, being a direct manufacturer and a direct seller, we believe gives us an advantage and will help our partners and customers through that as well.

And all of these tools that I mentioned in one of the previous answers are in effect now. Our special pricers know the cost for all of our best guests for next year, what's available, our sales force, our product business leaders all know, and we're working as one team to collectively work this real time, as I mentioned before, to get the best outcome for the company, our shareholders, and customers. That's what we'll work through.

So our ability to recover, I think, is better than normal times. And I think that's probably amplified or improved by the fact that there'll be a scarcity of parts.

Operator

Asiya Merchant, Citigroup.

Asiya Merchant - Citi Infrastructure Investments LLC - Analyst

Just looking ahead into storage, it seems like that business is doing perhaps a little bit better than what was previously expected. As you look into the server demand that is driving up the revenues for the core server, and as you look into next year, just given all the, obviously, the backdrop of commodity headwinds here, how are you thinking about storage from here on?

And if we can get that inflection towards more Dell IP storage, which is obviously positive for your margins, quicker relative to some of the unwinding of the HCl storage, if that can happen faster than what was previously communicated at the Analyst Day?

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Yeah. I think, again, just to clarify, I guess, and to inform what we're looking at in terms of guidance, continuing to show that Dell IP storage growth and seeing that sequential hopefully above or expected to be above normal sequential. That'll allow us, along with the pricing discipline, to keep that margin improvement coming along for P&L.

On the server comment. Again, strong demand in Q3, particularly in month three. So to Jeff's point earlier, building a bit of that backlog. So I think you can expect high-single-digit growth in that business for Q4, which would end us on a high point as we exit the quarter. That said, look, as we head into FY27, still very early. Obviously, it's a lot happening in the market and changing. I would still reference you back to the long-term framework that we've got. I think it's a good reference starting point. We'll work from there and then obviously be agile as we assess and see how it evolves.

But, yeah, for now, I think it's still a little early for FY27.

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

But strategy-wise, we made the pivot to Dell IP, not looking back. It is serving us well. The mix continues to increase across our storage revenue dollars. The margins within the portfolio continue to improve.

We talked in our comments about the all-flash portion of the portfolio growing double digits for the second quarter. So think PowerMax, PowerScale, PowerStore, ObjectScale, and PowerFlex all growing. We've talked about PowerStore and seven quarters of growth, six of those double digits. The buyer base is growing. The net new customers buying Dell Storage with PowerStore is up.

The strategy that we've flipped to, which really drives this notion of three core areas were the Dell Private Cloud, which is really open, disaggregated, and automated storage. It's our three-tier storage with our Dell automation platform. Our AI and unstructured storage assets, so think of those as the construct of the AI data platform, and cyber resilience, which is really data domain and power protect. Those are all Dell IP assets.

That's what we're driving. That's what the Salesforce is incentive to do, and we're seeing nice results from it.

Operator

Simon Leopold, Raymond James.

Simon Leopold - Raymond James - Analyst

I want to see if you could maybe unpack the elements that contribute to the roughly \$5 billion of incremental AI revenue for the full year. I guess what I'm trying to get at is how much is this about your ability to get key components, new orders, or existing orders occurring earlier? Just help us unpack what factors led to the raised forecast for AI.

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

Well, at the highest level, \$12.3 billion of new orders and a growing backlog and then a supply chain that I think is unmatched that finds materials and gets materials lined up with customer availability. This is equal parts customer readiness. Buildings, power, direct liquid cooling. So we've used the word lumpy before, which we purposely didn't use here, but it's really driven by a customer's readiness and our ability to deliver, matched up with the supply chain's ability to get the material, and matched up with our sales force out winning new opportunities across the neocloud customer base, the sovereign customer base, and enterprise customer base.

So, it's that combination and why you see one quarter \$5 billion, one quarter \$9 billion in shipments, it really is equal parts customer readiness, customer delivery acceptance that drives that. And the stars align in Q4 with the amount of orders with the GB200 and GB300 business that we have booked that we'll be able to deliver at that rate in Q4.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, Simon.

Operator

David Vogt, UBS.

David Vogt - UBS AG - Analyst

Maybe just one for David. So you know, you talked about margins and commodity pressures quite extensively, but can we look at your purchase commitments as a barometer for how you're thinking about margins going into next year? I know a big chunk of that is probably tied to the AI server business, but is there anything in sort of those purchase commitment numbers that we could look at as sort of evidence of how you're thinking about where DRAM and NAND prices could be?

And I think last quarter you exited the Q north of \$5 billion, but most of that is for this fiscal year. So if you can give us any update on kind of how to think about purchase commitments going into fiscal '27, and as an indicator, that would be great.

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Yeah, sure. Look, we've no discernible change in the pattern of our purchase commitments or in relation to positioning on things like inventory, et cetera. So if you think of AI – and this is a good kind of litmus test for us within the finance side as well as we observe it. Take that \$12.3 billion that Jeff just referenced. But if you look sequentially, we actually took down our inventory values about \$300 million.

If you look at it in a year in year, the year-in-year inventory is roughly flat, give or take. Yet our year-to-date demand is up over \$19 billion in that period, too. Obviously, we have our normal supply chain procurement processes kicked in as part of it. So no real discernible change from last quarter or anything to read in as we look into FY27 just yet.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks a lot, David. Operator will take one more question and then we'll get handed over to Jeff for close.

Operator

Tim Long with Barclays.

Tim Long - Barclays Services Corp - Equity Analyst

Two-parter, if I could, on gross margins. First part, talking, about the mix in AI servers, as you start to convert more of the neocloud and sovereign and enterprise to revenues, would you expect a change to that mid-single-digit operating margin? Could that move higher? How meaningful would that be?

And the second part, on the PC side, I think there was a comment at the Analyst Day about really doing well in the high-end commercial, but trying to recapture share in other parts of the PC market. Is that something that we could expect might impact operating margin on the PC business?

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Yes, maybe let's start with the AI side. We're going to stay consistent on our mid-single-digit delivery in terms of operating profit. We'll stay within that range, and we'd like to in every deal, the reality is we won't, right? And a lot of those can be competitive, particularly the larger ones. So look, we'll remain judicious as we manage the profitability and the ongoing activities there.

Some will flow slightly lower, other deals will be slightly higher, but we'll stay pretty consistent as an objective within that mid-single-digit momentum as we kind of go forward and that's if you like, the bedrock of which we'll build it on.

The other element for me, which is part of it, is making sure every deal is accretive from a dollar perspective, too. So again, cash flow is something that's at the forefront of all our operations. We think that's a good thing. In fact, we think it's a great thing. We want to make sure we keep it front and center as we look at the activities.

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

And Tim, your second question on PCs. When we were last together, you're exactly right. I talked about the PC business being a scale business, and our share had slipped in the non-premium segments. And we leaned in this past quarter. We leaned in with our Dell Pro Essential and Education boxes in commercial, and we were more aggressive into holiday in the consumer business. And the results are encouraging.

International growth accelerated sequentially up double digits in demand year over year. That's exactly where Dell Pro Essential is targeted. And while it is a very competitive marketplace, we made a slight reference to it, but I'm going to call it out specifically. We returned to demand growth in Consumer for the first time in three years. We returned to growth in the Consumer business for the first time in three years.

We're going to continue to work on our cost position, tuning the products so they're the right products at the right cost for the right price band. We went into the market with what we had. We'll continue to refine that. Lots of changes in the roadmaps going forward, and you have our commitment that we can grow while balancing the profitability within the operating ranges that we've given.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, Tim. And to you, Jeff, to close us out.

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

Thanks, Tim. Sure. Thank you all for joining us today. A few points as we wrap up. First, we achieved record Q3 results across both revenue and EPS, underscoring disciplined execution and the strength of our business model. Second, our AI momentum remains exceptional. We saw record orders in Q3 and have booked \$30 billion through the first three quarters of this year.

Our pipeline and customer base continues to expand, and we remain well-positioned to capitalize on accelerating demand for AI solutions. And lastly, we saw improved profitability and strong cash generation enabling above-trend capital return to shareholders. We are set up well to close the year strong and to drive long-term value.

Thanks for joining us today and Happy Thanksgiving, everybody.

Operator

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