TRANSCRIPT

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PRESENTATION

Operator

Good afternoon and welcome to the fiscal year 2026, fourth-quarter financial results conference call for Dell Technologies Inc. I'd like to inform all participants this call is recorded at the request of Dell Technologies. This broadcast is the 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 Instruction)

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 - 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 future 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.

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

Thanks, Paul, and thanks, everyone, for joining us. FY26 was a defining year in our company's history. We delivered record full year revenue and EPS. Revenue reached $113.5 billion, up 19% and EPS grew 27% to $10.30. We converted that performance into a record annual cash flow over $11 billion and returned $7.5 billion to shareholders, including 54 million shares repurchased more than doubled last year.

The AI opportunity is meaningfully growing and transforming the company. In FY26, we closed $64.1 billion in AI orders shipped $25.2 billion and exited with a record $43 billion in AI backlog. Powerful proof points that our engineering leadership and differentiated solutions are winning. We are executing with discipline and speed. We are gaining share in our PC business and strengthening ISG with strong margins in traditional servers and storage, all while positioning the company for the AI era. It was a monumental year. We exit with strong momentum, and I couldn't be more proud of this team.

With that, let me turn to the key highlights for the quarter. We delivered a record quarter. Q4 revenue was $33.4 billion, up 39% and earnings per share was $3.89, up 45%, driven by disciplined execution and demand for our AI solutions. While operating in a dynamic environment, we saw a record cash flow generation and above trend capital returns for shareholders.

Now let's move to AI. We kept an already strong year with an exceptional quarter for AI, record orders and broad-based demand. In Q4, we booked $34.1 billion in AI orders, evidence that demand is accelerating as customers deploy AI at scale. We shipped $9.5 billion in AI servers in the quarter. We exited Q4 with a record $43 billion in AI backlog, and our pipeline continued to grow sequentially even after converting $34.1 billion of orders, a clear sign of sustained momentum.

For the full year, AI orders reached $64.1 billion. Our customer base surpassed 4,000 with growth across neoclouds, sovereigns and enterprise customers, evidence that demand is broadening across all customer types. We're winning for the reasons we've outlined all year. Engineering for performance and time to market while optimizing TCO for AI workloads, deployment and installation at speed and scale, ongoing life cycle support that keeps clusters up and running and DFS financing. We're doing this with discipline. Profitability is in line with our mid-single-digit operating margin target. We like our position, the line of sight we have with our backlog and pipeline and the advantage our scale and supply chain bring.

Moving to traditional servers. Demand significantly outpaced supply in Q4, with strong double-digit demand growth across every region and momentum accelerated through the quarter as customers prioritize access to compute for critical workloads. We saw broad-based strength with units up, a large active buyer base and a richer mix of our 16th and 17th generation platforms as customers shifted to dense high-performance configurations. The ROI to refresh is compelling. Even at higher ASPs, customers see a 7:1 consolidation when upgrading from the 14th generation to our latest platforms. The runway is substantial. A majority of the installed base remains on 14th generation or older servers, creating a significant opportunity to modernize, improve performance and lower the cost of ownership.

Traditional x86 is benefiting from AI infrastructure buildouts. While many AI workloads rely on specialized GPUs, traditional compute remains essential for orchestration, data processing and inference support. As customers deploy AI, they are modernizing broader AI estates, refreshing and expanding general purpose environments.

Turning to storage. Revenue was up 2% with continued outperformance from our Dell IP portfolio. We saw double-digit demand growth in Dell IP with momentum across PowerMax, PowerStore, PowerScale, ObjectScale and data protection. All-flash arrays delivered their third consecutive quarter of double-digit growth. PowerStore, our primary mid-range platform posted its seventh consecutive quarter of double-digit growth. Profitability improved, supported by our higher Dell IP mix. Lightning, our parallel file solution remains on track for general availability in the first half of the year with early customer deployments already underway.

Turning to CSG. Revenue grew 14%, and we gained share as the October momentum carried through November and December. We leaned into share and expanded our buyer base. Broadening the portfolio to reach more of the market, including the lower end of the commercial market, emerging market, consumer and education, and by targeting strategic accounts. These actions expand our installed base and position us for future refresh cycles. As we leaned into growth, we saw a higher mix of competitive large bids and customer expansion than planned.

A higher-than-normal industry channel inventory levels, which delayed price increases. We have already taken actions to address each of these. We implemented pricing moves effective January 6 to reflect our higher input costs. Orders margins improved and are the basis for all new orders. We remain confident we can operate CSG within our long-term value creation profitability framework. Commercial revenue grew 16%, our sixth consecutive quarter of growth, with demand up for the eighth quarter.

We are seeing growth across geographies, strong large enterprise demand and traction in the lower end of commercial where we set to expand. The refresh cycle remains a meaningful opportunity, given the large installed base of devices that are over 4 and 5 years old. Consumer revenue was roughly flat, with demand up for the second consecutive quarter, supported by strength in gaming. Before I wrap up, a quick update on the supply chain and component costs. Across the industry, the environment remains highly dynamic with unprecedented AI demand, creating sustained supply tightness and frequent pricing resets. In Q4, we did what we said we would do. Shorter quote validity periods, more dynamic pricing and a tighter alignment between our supply chain sales and prices. We saw the benefit of this in ISG and expect it to extend to CSG. Given CSG's higher transactional volume and deal velocity, repricing to reflect multiple cost changes takes longer to flow through.

We're executing our operating model of urgency, securing supply as the first priority. Our scale, direct model, world-class supply chain and long standing supplier relationships are real advantage and they become even more visible than periods of disruption. We are managing this environment in real time, applying lessons learned from prior cycles to improve resilience and to strengthen our position.

In closing, FY26 as a pivotal year for Dell. We delivered record performance converted it into a record cash generation and returned significant capital to shareholders, all while building a stronger company. We executed across the portfolio. ISG is at record levels with accelerating AI demand. Traditional servers is growing sharply with demand outpacing supply. Dell IP Storage continues to outperform the market and CSG is gaining momentum with share gains in Q4.

We are operating with discipline, lower OpEx alongside meaningful double-digit revenue growth. We've made the company more agile, which is on display in this commodity environment. Bottom line, we enter FY27 with momentum, a strong backlog and pipeline and a proven operating model. I'm excited about the road ahead and proud of our team's execution. With that, let me turn it over to David to walk through the financials and our outlook.

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Thanks, Jeff. It was a record year for Dell. And as Jeff mentioned, we're very excited about what's ahead. The team executed extremely well this quarter, delivering record revenue, EPS, and cash flow with strong returns to shareholders.

Total revenue was up 39% to $33.4 billion. Gross margin dollars increased 18% to $6.8 billion. Gross margin rate was slightly better than anticipated, at 20.5% and reflected a mixed shift to AI servers, with AI revenue up more than 4x year-over-year and improved profitability in storage. Operating expenses were up 5% to $3.3 billion, primarily from variable compensation tied to outperformance.

We continue to drive meaningful scale within the P&L, with OpEx down 320 bps to 9.9% of revenue. Operating income grew 32% to $3.5 billion or 10.6% of revenue, primarily driven by higher revenue. Net income was up 36% to $2.6 billion, primarily driven by stronger operating income. And our diluted EPS increased 45% to $3.89 a record. Moving to ISG. ISG revenue was a record $19.6 billion up 73%, marking eight consecutive quarters of double-digit revenue growth.

Before I get into the categories, we are now breaking out AI server revenue from overall server and networking line, reflecting the scale of the business and growth we expect to see going forward. AI server demand remained exceptional, with records across the board. We had $34.1 billion in orders, $9.5 billion in shipments, $9 billion in revenue, and an ending backlog of $43 billion.

In traditional server, demand improved throughout the quarter, outpacing revenue with stable profitability. Traditional server and networking revenue was $5.9 billion up 27%. Storage revenue was $4.8 billion up 2%, with strong demand across the Dell IP portfolio. Dell IP demand outpaced market growth, and PowerStore remained a bright spot with eight consecutive quarters of growth, seven of which were double-digit.

ISG operating income was a record $2.9 billion up 41%, marking seven consecutive quarters of double-digit growth. This was driven primarily by higher revenue. Operating margin was 14.8%, up 240 basis points sequentially. The sequential improvement was driven by scaling and strong storage profitability due to a higher mix of Dell IP.

Turning to CSG. CSG revenue was up 14% to $13.5 billion. Commercial revenue grew for the sixth consecutive quarter, up 16% to $11.6 billion while consumer revenue was roughly flat at $1.9 billion. CSG operating income was $0.6 billion or 4.7% of revenue. As Jeff mentioned, profitability reflects strategic share capture in a highly competitive market. This is building our installed base and expanding our services and attach opportunities, positioning us well for the refresh cycle ahead.

Moving to cash and the balance sheet. We delivered a record cash quarter with cash flow from operations of $4.7 billion. This was primarily driven by higher profitability and sequential revenue growth. We ended the quarter with $13.3 billion in cash and investments, up $1.9 billion sequentially. Our core leverage ratio is at 1.4x, in line with our target. We returned $2.2 billion to shareholders this quarter, including repurchasing 14.9 million shares at an average price of $125 per share and paying a dividend of approximately $0.53 per share. For the year we returned $7.5 billion and repurchased roughly 54 million shares, more than double the amount of shares we repurchased in FY25.

Looking ahead to FY27, we're raising our annual dividend by 20% to $2.52 per share, well above our long-term value creation framework. Additionally, the Board of Directors approved a $10 billion increase in our share repurchase authorization. These actions reflect our confidence in the business and our ability to generate strong cash flow in any environment.

Next to guidance. Looking ahead to FY27, we expect to build on a record FY26 and deliver another exceptional year. AI demand continues to accelerate, and our value proposition is resonating with customers and driving continued wins and success. This is demonstrated by $10 billion in shipments in FY25 and 150% year-over-year growth to $25 billion in FY26, with an exiting backlog of $43 billion.

For FY27, we expect $50 billion in AI revenue, about 100% growth year-over-year. This outlook reflects the composition of our existing backlog, customer readiness, and delivery schedules. Across the rest of the business, customers are assessing their needs and priorities in an environment where component demand is outpacing supply, which is elevating input costs and extending lead times. We have price to offset these pressures, and our guidance incorporates a prudent view of second half demand while navigating this dynamic environment.

For a full year, we expect revenue of $138 billion to $142 billion, up 23% at the midpoint of $140 billion. ISG is expected to grow in the mid-40s, driven by roughly 100% growth in AI revenue. Traditional servers and storage are expected to be up mid-single-digits, with growth concentrated in traditional servers and more weighted towards the first half. CSG is expected to grow roughly 1%. Margin rate expansion remains a priority. We're maintaining pricing discipline and our transition to Dell IP storage is accretive to margins.

Excluding the impact of AI mix, our gross margin rates are up year-over-year. We expect operating expense dollars up low single-digits, delivering significant operating leverage as we continue to invest and modernize, simplifying, standardizing, automating and enhancing our operating model with AI. We expect ISG and CSG operating income rates to be at the lower end of our long-term framework, reflecting the rapid mix shift to AI and the near term CSG margin dynamics we discussed earlier.

Operating income is expected to grow approximately 18%. INO is expected to be between $1.4 billion and $1.5 billion. Diluted non-GAAP earnings per share is expected to be $12.90 plus or minus $0.25, up 25% at the midpoint. You're seeing the operating model at work with strong EPS growth driven by significant expansion of our AI business, growth and improving profitability across the rest of the portfolio, meaningful OpEx scaling and EPS leverage from our share repurchase program. We're leveraging our strengths in a dynamic environment.

For Q1, we expect revenue of $34.7 billion to $35.7 billion up 51% at the midpoint of $35.2 billion. ISG is expected to grow over 100%, supported by $13 billion of AI server revenue, and CSG is expected to be up roughly 2%. Operating expenses are expected to be down low single-digits. We expect operating income to be up roughly 60%, with sequential improvements in CSG operating income rate. We anticipate a diluted share count of roughly 664 million shares. Diluted non-GAAP earnings per share is expected to be $2.90 plus or minus $0.10, up 87% at the midpoint.

In closing, we delivered an extraordinary year with record revenue, EPS, cash flow, and capital returns. Revenue reached $113.5 billion up 19%. EPS grew 27% to $10.30. We generated over $11 billion in cash and returned $7.5 billion to shareholders. Our focus is clear - drive durable shareholder value through consistent execution, profitable growth and robust cash generation through any cycle or environment. I'm excited about the year ahead. We have the portfolio, operating model, discipline and multiple levers to deliver growth that exceeds our long-term value creation framework. Thank you to the team for their outstanding work, and thank you all for your time.

And now I'll turn back to Paul to begin Q&A.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

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

QUESTIONS AND ANSWERS

Operator

Tim Long, Barclays.

Tim Long - Barclays Services Corp - Equity Analyst

Thank you, yeah, trying to be concise. I did want to just follow-up on the AI servers, obviously, pretty, huge, order number there, really good performance. Just curious if you could kind of provide us a little color. Clearly given the demand backdrop, it seems like you're not really seeing any memory price impacts on that business, but I am curious as the business scales continually, it seems like you're maintaining that mid-single-digit operating margin, which is excellent, but as we see scale and all the diversification you're talking about, maybe you can just provide a little color on other opportunities, either on the margin front or pull through of other business, as that business reaches a much broader, more diversified customer base.

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

Yeah, Tim, I'll take the question. I mean, let's start with, we had an extraordinary quarter taking $34 billion worth of orders, and I think equally important, and we tried to call this out, the five quarter pipeline grew as well. We didn't drain it. We actually grew it, and we grew it across all customer types, CSPs, sovereigns, neoclouds as we call CSPs, and enterprise. Enterprise in particular, I'd call out in Q4 demand is very strong. We now have over 4,000 customers. We saw our enterprise AI business grow significantly quarter-over-quarter and very encouraging, we're seeing AI deployed across many use cases in enterprise. So the backdrop of demand continues to be strong, and you called it out. We tried to call it out as well. We operated throughout the quarter and over the course of the year in that mid-single-digit operating income.

With what we see in front of us, there's no reason to change that. That is our guidance of where we can operate this business, and we're going to continue to grow it. It's exciting to say that we can grow it twice what it was this year. We grew orders six times over the previous year, and we're excited about the prospects of growth and probably a backdrop from a technology perspective as we see inference ramp. Inference is driving more tokens. Tokens drive more compute capacity and intensity, and ultimately that is good for the revenue stream of the company.

Operator

Mark Newman, Bernstein

Mark Newman - Sanford C Bernstein & Co LLC - Analyst

Great numbers, very impressive numbers on AI servers. I wonder if you could, talk about the profitability of AI servers given the huge numbers you're posting, any change in direction versus previous quarter, and going forward, that we may anticipate given the huge upside on the top-line. And then, and similarly I guess we'll get to this later in the call, but a little bit more explanation on how rising memory prices are impacting profitability in CSG and traditional servers would be appreciated.

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

So two questions. The first one, I'll reemphasize what we just talked about. We maintain throughout the quarter in the guidance that David just talked about that we can operate AI at the velocity we're seeing in the mid-single-digits. We have a significant technology transition in front of us. We see our ability to work our way through that and maintain mid-single-digits. We clearly have a lot of backlog to clear with $43 billion in backlog. That backlog will ship at mid-single-digits. So hopefully those are three data points of backlog, future demand, and technology transition, and in our guide that we can maintain the profitability that we've talked about. When we look at the other two businesses, traditional servers and CSG that you called out, I think we are operating at a high level of proficiency of changing our price as our input costs are rapidly changing. We began to change price, most notably in servers in mid-December. December 10 to be specific, and we saw our margins stabilize with higher input costs coming our way.

CSG, we purposely, we were deliberate in delaying moving price because we leaned into a share position. We began that in October. We gained momentum in October, November, and December. You saw that in the share results. Our business grew 18% in a market that grew 10%. We took 100 basis points of share. We chose not to take our foot off the accelerator.

We saw a change in the composition of the business in December in particular with a higher bid mix of large deals as well as acquisition pricing of new customers. We grew our customer base in CSG and then we made a price change on January 6. When we made a price change on January 6, our business normalized, margins stabilized, and they're where they need to be so we can operate within the profitability framework that we've committed to. Hope that was clear enough.

Operator

Louis Miscioscia, Daiwa.

Louis Miscioscia - Daiwa Securities Group Inc – Analyst

Hey, thanks for taking my question and, great numbers, guys. Congratulations. If you look at traditional servers, obviously you're growing exceptionally well in the AI ones, some of our checks suggested, faster growth in in that area. So I guess I'm just trying to understand why numbers not higher for that, more into the, solid double-digit range, and are you only seeing inference deployed on AI servers and not yetas much on traditional servers?

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

Louis, let me try to break that down and I'll ask for David's help on sort of the forward guide. In the quarter, I think we were very outspoken about demand outpace supply, and traditional servers grew double-digits. And we saw that across all use cases in small business, medium business, large multinationals, across all geographies.

We saw the continuation of the consolidation that we've talked about and modernization that we've talked about in traditional data centers where you get incredible efficiency upgrading old technology, for example, our 14G is converted to a 17G, converts at 6:1 to 7:1, so you're getting incredible efficiencies and power, space and cooling, and that continued throughout the quarter and we're projecting that to continue into fiscal '27.

Additionally, we are seeing AI workloads on x86 pick up. I think that is significant, and we saw that in enterprises. A phrase that we use inside the company is AI forward. So the most advanced enterprises that are really adapting AI are moving quickly. And we saw them use that across a large number of use cases, whether that be software development, scientific computing, whether that be some of the financial trading - traders that are using very sophisticated algorithms. We're seeing that deployed broadly, as well as in some inference use cases. I'll let David take the guide.

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Yeah, so to build on that, Jeff, like you said, demand far outweighs supply in relation to the Q4 results. Q1 guide, a strong reflection, we see that momentum continuing a strong double-digit growth in Q1. We have moderated that slightly as we go into the back half of the year. There's a lot of dynamics out there as we watch the supply demand dynamics. Part of that will be us out there looking for more supply. But if this demand continues, obviously there is the potential for growth. But you're going to see in Q1, we're guiding to a particularly strong quarter similar to Q4.

Operator

Amit Daryanani, Evercore.

Amit Daryanani – Evercore Inc – Equity Analyst

Clearly, you folks did not get the memo that you're supposed to miss numbers, by the way, when memory prices go up. But it's good to see these results. And I'm hoping you folks can talk about as we shift to Rubin, could you just contrast how you think the Rubin cycle plays out in '27 versus the Blackwell cycle? I'm really hoping you can touch on, A, do you think operating margins will be much more smoother through Rubin or will it have the same cadence that we saw with Blackwell? And then, B, do you think the revenue lumpiness could be less severe as you have a much more diversified customer base perhaps? So I'd love to just contrast those things. And then, David, perhaps I missed this, free cash flow expectations for fiscal '27 would be appreciated as well.

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

Amit, on Vera Rubin, look, we're excited about the, technology that's in front of us. We have a significant technology transition to go through. There's been a lot of lessons learned from the Grace Blackwell implementations. We're expecting a smoother transition, we're expecting all of the manufacturing lessons and lessons around tests that are implemented into the next architecture to allow us to ramp up more velocity and speed. So that's, we believe that's the case.

We have our early engineering samples. We're working with customers now on designs, very encouraged with what we're seeing thus far. When I look in terms of operating margins, the question, I guess will be consistent here. We believe we can operate in the mid-single-digits with the backlog at hand with the new orders that will take on over the course of the year, which will include Vera Rubin, and that's our outlook and guidance and what we've implied in the numbers that David has given.

And I think it is a smoother transition. We've learned a lot. We're more enabled, more skilled. We've invested in more engineering capability. Our forward deployed engineers again are working with customers right now on advanced designs, and I like what we're doing, and I expect it to ship in the second half of the year because we know Vera Rubin is in production

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David Kennedy - Dell Technologies Inc - Chief Financial Officer

And to touch on cash, obviously we're coming off the back of a very strong FY26 $4.7 billion of cash flow from operations that totaled up to $11.2 billion for the full year and allowed us to maintain our commitments to our shareholders, right, to return over 80% of our adjusted free cash flow back, repurchasing over 54 million shares in the year. And while we don't guide to cash, look, what I can say is we expect another really strong cash quote or cash year ahead. Our net income to adjusted free cash flow will be at or slightly ahead of our commitment in our long-term value creation framework. And that consistency and ability to reward the shareholders will be strong again. You can see that with our dividend commitment today. 20% growth in our dividend per share. That's the 4th year in a row of double-digit increase in our dividend per share. That with our execution on the share buyback program means we should have a very strong and stable working capital year ahead.

And while we don't guide to cash, look, what I can say is we expect another really strong cash quote or cash year ahead. Our net income to adjusted free cash flow will be at or slightly ahead of our commitment in our long-term value creation framework. And that consistency and ability to reward the shareholders will be strong again. You can see that with our dividend commitment today. 20% growth in our dividend per share. That's the 4th year in a row of double-digit increase in our dividend per share. That with our execution on the share buyback program means we should have a very strong and stable working capital year ahead.

Operator

Ben Reitzes, Melius Research.

Ben Reitzes - Melius Research LLC - Equity Analyst

Nice execution here guys. I'll echo that. My question is on storage. It sounds like it's turning a little bit, you beat the street by a little bit 2%. And then you said, I believe that it'll grow in the mid-singles for the year and it looks like it may outgrow servers in the back half of the year. So can you just talk about what's really going on with storage, your highest margin business? Is it really turning? Is it going to be a contributor to mix in the upcoming year that allows you to keep gross margins pretty flat for the year in the tough component environment .

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

Ben, look, we're excited about our storage business. Again, we're reporting that on an orders basis our Dell IP portfolio grew double-digits. That's the entire portfolio. PowerMax, PowerStore, PowerScale, ObjectScale, and our data domain platforms all grew double-digit demand, are all flash through double-digit demand. It grew in all regions and we acquired new customers.

PowerStore grew its eighth consecutive quarter. 7 of those, the last 7 double-digit. Half of those new customers that we're winning are new to PowerStore, and nearly 30% are new to Dell buying storage. We saw tremendous demand for our unstructured products as AI inference and AI continues to grow, grow, grow, grow, and grow.

Our Dell IP portfolio is now a greater percentage of the mix year-over-year. We expect it to grow FY27 over '26. It will be a greater percentage of mix next year than this year. That's part of the profit contribution that David has outlined in our guidance. And we're entering an era in my humble opinion where architecture matters.

So where we have the leading data rate reduction 5:1 with our PowerStore product, we're going to increase customers' effective storage capacity. We're the leader there. If you take our data protection product where we have up to 75:1 compression in dedupe. We are going to help customers through this memory crisis shortage, whatever you want to call it, with advanced architectures that require fewer servers and fewer drives to back up customers' information. That architecture difference, we believe, is fuel that will continue to serve our Dell IP portfolio well in FY27.

David Kennedy - Dell Technologies Inc - Chief Financial Officer

I would also add there, Ben, I think you asked about the contribution and the margin that we see going forward. When we see it today, right, the results from Q4 illustrate that in relation to the Op Inc performance of the ISG P&L, which was tremendous. As we look into the guidance, particularly in the back half of the year, we talked about mid-single digit between traditional server and storage. Maybe a smidgen more on the traditional server side, but growth nonetheless. So I hope that helps.

Operator

Erik Woodring, Morgan Stanley.

Erik Woodring - Morgan Stanley & Co Ltd - Analyst

Hey Guys, thank you for taking my question, really impressive guide. Jeff or David, I guess the question is, can you maybe just help us understand what kind of memory price inflation you are assuming in your 2027 outlook, FY27 outlook excuse me you're assuming in your 2027 And since you're talking about margin rates improving year-over-year. Maybe just help us also understand what you're doing different this cycle versus past cycles to protect your profitability?

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Yes, a few questions in there. I think if you go line by line in terms of the business, so we talk CSG in relation to guidance. Our current assessment of the market is double digit, probably in around that minus 11%, minus 12% range as we look at the year ahead, probably more acute in the second half. So obviously, we believe our guide, which is 1% growth in revenue for the year ahead is a prudent guide to start with, align with a commitment to manage and maintain our margin rates within that portfolio. So you can see the difference between the units and the revenue there.

We do and will take share just like we did in Q4, we'll obviously learn as we go to the price increases have been there. Costs will continue to go up. To a certain degree, we'll make quick and decisive decisions and execute. Jeff outlined earlier, the ability and the execution of the team, particularly on the server side in relation to Q4. We're already seeing the signs of that for Q1.

So all the actions we discussed around time validity of quotes, moving at speed, increasing list prices, moving to discount off list pricing, limiting to little or no promotions. All of those actions are strong operational execution levers we've got to work the business as we kind of move forward into the guidance.

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

I mean, Erik, you asked about memory assumptions. Obviously, our price is proprietary. I'm not going to share our specific percentages, but look at the spot market. I mean the spot market for a gigabit of DRAM, over the last 6 months is up nearly 5.5 times at $2.39 a gigabit. If you're to look at NAND, the cost is $0.20 a gigabyte. That's up nearly 4x over the last six months. The industry analysts have Q2 up over Q1 in a range of 20% to 50%. They have Q3, 5% to 15%. Q4, 5% to 10%.

Those are estimates. Those are probably in ballparks where things are. So we haven't changed anything. We continue to work with our long-term partners. We've had LTAs in place. We've had capacity agreements in place. We know how to budgetary price. I mean, David's team has our best estimate of cost for Q2, Q3, and Q4 and how we're pricing deals today.

We're working with our memory partners to be as flexible and as agile as possible. We are working through things of how do we minimize our complexity, how do we improve our mix? How do we sell what's coming? How do we improve our designs to take whatever parts that are available. And then to answer really to maybe put the bow around this, the pricing actions. Look, we became very proficient during COVID.

And all of the best practices that we learned during COVID, as I mentioned in the last call, we've put in place, and we've put in place faster. We changed the entire pricing of our server business on December 10 in a couple of days. We had tens of thousands of open quotes in the PC business. And changed them all on January 6.

This notion of we recover our cost in 2/3 of it in 90 days, we moved that quickly. That's what we learned in COVID. That's what we put in place here. So we made list price changes across the board. We've changed in our vernacular, our internal mechanisms around smart price and margin floors all changed instantaneously. We're moving to discount off list price. We're compressing discounting. Our quotes are valid for the shortest period of time they've ever been. And we're reducing promotions and all sorts of special pricing going forward.

That's what we've done. It's been in place, as I mentioned with one of the previous questions. We saw our server business stabilize with the higher input costs. You saw that in the performance of the business in ISG, which was extraordinary, and PCs we purposely. Delayed implementing that price move to stay in the hunt to take share and to drive growth which will serve us for the long run and then when we made the change on January 6, it wasn't 90 days later, it was that day we stabilized margins. I hope that helped.

Operator

Krish Sankar, TD Cowen.

Krish Sankar - Cowen and Company LLC - Analyst

Congrats on the amazing results. Jeff, I had a question on enterprise AI adoption. You kind of said that it's very strong in your server business. Clearly, agentic AI, long horizon agents, all of them have implications across your server, Dell AI Factory, and your storage business. I'm just wondering, is there a way to break down your AI server orders between enterprise, neoclouds, and sovereign? When do you expect enterprise AI adoption to spill over to your storage segment and probably start a new storage cycle?

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

Well, of course, there's a way to parse it. I won't do this on the call, but we absolutely keep track of the health and growth of those three parts, our neoclouds, sovereigns, and enterprise. We try to give you a sense of the enterprise adoption with the number of customers, which is now over 4,000. We gave, I think, some breadcrumbs, if you will, around the buyer base group. It was a record quarter in enterprise revenue in Q4.

We're seeing usage models expand. I take a look at our own company, that example that I would give. Two years ago, we deployed coding assistants, and it used some GPU capacity. Mid-last year, we started deploying agents to write the actual software with basically specifications from our software developers and architects. What we saw was an incredible need for more compute power. The amount of tokens that is required to do that well is significant. That's just one-use case in one company.

What we believe is we're seeing that broadly in the leading companies who have deployed AI and seeing their tremendous benefit and potential of this technology, that we're going to see AI and enterprise continue to ramp. We'll continue to give you signals of our customer expansion, the revenue going forward. I'd also just make sure that I'm very clear, the enterprise portion of our five-quarter pipeline grew and actually was the fastest-growing portion of the five-quarter pipeline. I hope that helped put some context around it.

Operator

Wamsi Mohan, Bank of America.

Wamsi Mohan - Bofa Merrill Lynch Asset Holdings Inc – Analyst

Jeff, maybe you can talk a little bit about what you're seeing from a purchasing behavior standpoint as you're implementing these price increases. It sounds like, you deliberately delayed your CSG price increases to take share. Obviously, indicates that that is elastic in that sense. From a server perspective, you did implement, and you've had some time now to look at sort of what the reaction from customers has been. I'm kind of curious to see if you've either seen material elasticity, both on CSG and ISG side. If you could, like, maybe put some bookmarks around that? Also, did you see any pull forward behavior, given that the expectation is that, you shorten sort of these windows of quote validity, you're talking about continued sort of price escalation from a component standpoint? Are customers worried about supply, and is that creating any change in terms of pull forward across your portfolio? Quickly, if I could, for David, the inventory stepped up a fair amount. I'm just kind of wondering if you could break that down for us a little bit on the composition of those things.

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

How about, David, you take the last one first because it sounds easier. I have a multifaceted question to answer.

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Yeah, sure. I think, look, if you look at our cash conversion cycle, minus 32 days, that's actually flat quarter-on-quarter, and that's the improvement of a day year-on-year. If you think building on the expansion of our AI business and shipments that we've done to maintain our cash conversion cycle in that position shows the diligence that we have from a working capital perspective. We have guided to $13 billion in Q1 of AI shipments. That results in reality in February and March, we're shipping billions of dollars of gear. Obviously, we're positioning inventory to do that. It's purely a function of the size and scale and growth we're seeing in the business that we've got

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

Hey Wamsi, I'm going to take a run at all the parts of that question. How are customers doing, reacting? I mean, clearly, early on, there was a wide range of emotions, as it wasn't completely understood. There's a dynamic that I think it's important for me to communicate, a different reaction in PCs versus infrastructure. I'm going to talk initially about infrastructure, then I'll pivot to PCs.

In infrastructure, after the sticker shock and our customers began to understand the gravity of the situation, the conversations quickly turned to access to supply. It was not literally a light switch, but it was in pretty quick order after the emotions of price increases. It was, oh, this is real. As you know, over the course of the quarter, the understanding of this situation became better understood. Customers began to see that, and the largest customers in the world, the most sophisticated customers in the world, began to move aggressively to protect their infrastructure build-outs. We saw that over the course of the quarter in AI, and in traditional servers and in storage.

PCs was a little different because you had inflated in-inventory positions in the channel, so the cost did not hit that inventory, which is another reason why we stayed in price position for growth. When we began to see it in PCs was in large bits, where they would be fulfilled over the course of the year, course over the first half, and what have you. Customers began to see the reality that this was going to be, costs were going to go up. Depending on when you wanted product and delivery, there was an associated cost with it. And then when you started having conversations, what's this gonna cost me in the first half versus today? You give an answer, I don't know, it certainly heightens a buyer's awareness, and understanding the cost today is likely better than the price it will be tomorrow, the next day, and so on.

That clearly has driven some amount of pull-ahead. I don't know how to quantify that. What we do know is IT budgets are generally fixed at the beginning of the year, so this pull-in is going to obviously drain those IT budgets to some degree. That's sort of what we've put into our guide, our best understanding of that, and why you saw some of the numbers around our PC business and traditional server business. But clearly, technology has to be replaced. If budgets aren't sufficient this year, that just means replacement cycles will be elongated and extended. I think the result over the next couple of years is we'll see product bought early, but we'll also see the replacement of some technology extend over time. I hope that answered the multi-parted question.

Operator

Samik Chatterjee, JPMorgan.

Samik Chatterjee - JPMorgan Chase & Co - Analyst

Hi, thanks for taking my question and congrats on the outlook as well. Jeff, maybe, just want to get sort of any more color that you can share on the AI order backlog of $43 billion. How does it break down between Blackwell and Vera Rubin and what are the implications of when some of that backlog ships, based on the backlog mix and. You're now guiding to $50 billion of revenue on that front. How should we think about capacity? You're doubling sort of revenue, but, to the extent that demand is higher, how should we think about your ability to add capacity over time?

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

So in the $43 billion backlog summit, it is predominantly, overwhelmingly Grace Blackwell. There is no Vera Rubin in the backlog. There is Vera Rubin in the five-quarter pipeline. The largest percentage of our five-quarter pipeline is a combination of Grace Blackwell and Blackwell, where we're seeing a rise in x86 Blackwell in the five-quarter pipeline, driven primarily by enterprise deployment, Air being the number 1 consideration.

The second consideration that's driving that demand in the five-quarter pipeline tends to be around some of the scientific work and some of the, as I mentioned in one of the earlier questions, some of the financial trading models and algorithms, the high-frequency traders, and using some of the x86 air-cooled solutions to meet their AI needs. I think that's sort of the composition of both the backlog and the ability to convert that five-quarter pipeline. That is clearly our job, is to take that five-quarter pipeline and convert the potential into POs. The corresponding next part of that is we'll go find parts to match the POs.

The $50 billion guidance that we gave is the alignment of what we believe at this point in time, four weeks into the fiscal year, of our best understanding of our customers' deployments and build-out of buildings and power and infrastructure, the availability of DRAM and E1 drives and E3 drives. Our ability to deliver that yields the $50 billion number that David gave. Leading the operational part of the organization, we're out looking for more parts. Our job is to get those orders get converted to be able to fulfill our customers' needs and to do that in a timely fashion. That's what we're working on.

Operator

Aaron Rakers, Wells Fargo.

Aaron Rakers - Wells Fargo Securities LLC - Analyst

Also, my congrats on the quarter. I guess one just housekeeping thing. When I look at the slide deck and you talk about $9.5 billion of AI shipments, you're now disclosing an AI revenue number that's a little bit different, right? $8.95 billion versus $9.5 billion. Can you help me understand what that difference is, number 1? And then number 2, on the traditional server side, I'm just curious, Jeff, with all of the pricing stuff going on, it sounds like a very healthy demand backdrop. How do I take the context of mid-single-digit growth and maybe separate that between what that underpins in terms of unit growth versus what I would assume to be a pretty healthy ASP uplift environment through the course of this year?

David Kennedy - Dell Technologies Inc - Chief Financial Officer

Yeah. Look, the first piece of that in relation to shipments versus revenue, normally in any given quarter, they'll be close to the same number. It's simply in transit. As we ship out $9.5 billion, some of that obviously would have been happening time-wise, right at the end of January. Literally just in transit, it will show up days later from a P&L perspective. Just normal run the business there in relation to that piece.

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

On traditional servers outlook, reconciling unit growth of the industry, TRU expansion, we clearly saw TRU expansion in Q4. Customers are continuing to migrate towards our 16G and 17G server and buying them with a lot of DRAM and a lot of storage. That's part of the consolidation play, replacing 5:1 if it's a 16G, 7:1 if it's a 17G. We'll continue to see that behavior of buying servers with more CPU capability, more memory, more storage.

Our best estimate in demand for units next year, or I guess the year we're in, sorry, excuse me, in FY27, calendar '26, is units are clearly down, while TRUs are up. To reconcile the difference of that spread of prices increasing, I think what we tried to outlay in our guidance, and David can chime in here, is the uncertainty. We're being prudent in our planning, in our guidance to you, because of the uncertainty associated with the second half. We try to put that in our best reflection in our guidance, and that's how you can reconcile between what we talked about in Q4, that demand was out ahead of supply, double-digit growth, TRU expansion, clearly seeing that into Q1. But as we see go into the second half of the year, we're trying to describe that uncertainty.

David Kennedy - Dell Technologies Inc - Chief Financial Officer

And again, just to dovetail on that, again, it's linked to the articulation. If we enter the year, we have sufficient supply to support and meet the guide that we've laid out. Obviously, demand is far outstripping supply right now. If that continues, like Jeff operationally said, we'll and he'll be out hunting for more parts to try and find that. But right now, I think it's a good guide. We see this trend, double-digit growth for Q1, and then we'll take care of the rest of the year as we go.

Operator

Asiya Merchant, Citi.

Asiya Merchant - Citi Infrastructure Investments LLC - Analyst

If you could provide any incremental color on the attach rate that you're seeing as you're shipping out these AI servers, are you seeing a better attach rate, perhaps, than what you have? And any other further color on the, on what else we can attach to those AI servers that you're shipping?

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

Clearly, the attach items for us around an AI server, I think, lie in three distinct groups. Storage, and given the enterprise momentum, we're seeing more storage with enterprise customers. Networking, our networking business continues to grow. And the third bucket would be around all of the types of services, installation, deployment services, break-fix services, which are proven to be a huge source of differentiation for us in the marketplace.

Our ability to deploy and install these very complex customers is unmatched in the marketplace today. Our uptimes are the best in the industry, and then our ability to maintain them with Dell-badged employees on-site, taking care of any challenge, any miscue, again, is a differentiated capability that we have in the marketplace. Those are the three areas that we focus on in attach. We're seeing continued growth and acceptance of that and we're optimistic that will continue into FY27.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, Asiya. We'll do one more question before we have Jeff close the call

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Operator

David Vogt, UBS.

David Vogt - UBS AG - Analyst

Jeff, just a quick question on the structural share gains in PCs. Is it sort of the premise here that your ability to dynamically adjust price and steer demand based on your supply chain availability and your expertise relative to maybe some of the smaller competitors, puts you in a position to structurally have a better sort of CSG backdrop in fiscal '27, calendar '26, and more likely than not in fiscal 28, as we think about where you're positioned? Is that really where you're gonna see share gains? I'm just trying to get a sense for how you're gonna outgrow a market that's gonna be down double digits. I get the pricing umbrella that's gonna happen, but just want to get a better sense for where the gains are gonna come from.

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

David, I couldn't have said it better myself. If you look at the last industry-wide shortage, Dell excelled and took share across the board, most notably in its PC business. Our long-term relationships, supply agreements with our partners, we believe, position us to take share in all of our businesses, and in particularly, PCs. Again, which is, again, a reinforcing point why we didn't back off on the pricing position and the posture that we had during the quarter. We believe we are entering and changed the trajectory of the business. We had lost share for 3 years. We exited the year with tremendous momentum. You saw it in the Q4 results, 14% revenue growth. IDC number was 18% unit growth for Q4, calendar Q4, to be specific. That momentum is important to us. We grew customers, and we're gonna continue to focus on driving and winning in that business.

We think there is a structural share gain opportunity for us, certainly over the next couple of years, as our supply chain team has positioned us quite well. I believe we can do that in servers, and I believe we can do that in storage as well.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Jeff, go right ahead.

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

Sure. We closed FY26, a defining year for the company, with record results and strong execution, and we are entering FY27 with clear momentum. We have tremendous AI traction entering the year with $43 billion in AI backlog. The supply environment is tight as we've ever seen, and input costs are moving higher. Our priorities are straightforward. First, secure supply. Next, price to protect our margin rates. You've seen this in ISG. CSG will follow with improvements beginning in Q1 and continuing through the year.

In Q4, our gross margin rate came in slightly better than anticipated. Excluding AI mix, we are guiding FY27 gross margin rate up on a year-over-year basis. The operating model we've executed for the past four decades allows us to move fast and adjust as demand evolves, with a broad portfolio and several levers at our disposal.

Our FY27 guide reflects that. 23% revenue growth at the midpoint and 25% EPS growth, driven by the expansion of our AI business, growth and improving profitability across the rest of the portfolio, meaningful OpEx scaling, and EPS leverage from our share repurchase program. We are positioned for another record year. Thanks for your time today.

Operator

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