

TRANSCRIPT

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PRESENTATION

Operator

Good afternoon. Welcome to the fiscal year 2026 first-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. Following prepared remarks, we will conduct a question-and-answer session. (Operator Instructions)

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

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

Thanks everyone for joining us. With me, today, are Jeff Clarke, Yvonne McGill and Tyler Johnson. Our earnings materials are available on our IR website. 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 webdeck 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 webdeck 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 of the Board, Chief Operating Officer

Thanks Paul. Thanks, everyone, for joining us. This quarter, we executed very well, achieving growth across our core markets and experiencing unprecedented demand for our AI-optimized servers. Our revenue reached \$23.4 billion, up 5%, driven by growth across all of our core markets. ISG and CSG were up 8%. Earnings per share increased by 17%, to \$1.55, growing 3 times faster than revenue. This resulted in record cash generation for the first quarter and shareholder returns exceeding \$2 billion.

Turning to AI. We experienced exceptionally strong demand for AI-optimized servers, building on the momentum discussed in February and further demonstrating that our differentiation is winning in the marketplace. We booked \$12.1 billion in orders in the first quarter, surpassing the entirety of shipments in all of FY25. We shipped \$1.8 billion, leaving us with a backlog of \$14.4 billion.

Our five-quarter pipeline continued to grow sequentially, across both Tier 2 CSPs and private and public enterprise customers; and remains multiples of our backlog. Enterprise AI customers grew, again, sequentially, with good representation across key industry verticals, including Web Tech, Financial Services Industry, Manufacturing, Media & Entertainment, and Education.

AI momentum continues to remain strong. That said, given the scale of these opportunities, variability in timing and choices around technology, the inherent non-linear nature of demand and associated shipments is likely to persist. This quarter is a clear indicator the Dell offering resonates with customer.

We are innovating at breakneck speed, designing bespoke, custom solutions for customers, while being agile to respond quickly to evolving next-generation architectures. Our ecosystem in this space is unmatched, with key partners such as NVIDIA, AMD, HuggingFace, Cohere, Meta, Mistral, Google, and so many others. Our execution continues to be a key differentiator. We've built a strong reputation for deploying large-scale clusters quickly and reliably, significantly reducing the time-to-first token and accelerating time-to-value for our customers. Beyond deployment, we provide ongoing, comprehensive support, including managed services that ensure system reliability and performance in customer data centers. And, finally, our ability to offer flexible financing solutions enables customers to scale their AI infrastructure with confidence and efficiency.

Looking ahead, we remain focused on expanding our leadership in this space by continuing to invest in innovation, deepening customer partnerships, and delivering the infrastructure and software solutions within our AI Factories that will power the next wave of AI transformation. In Traditional Servers, revenue increased double digits. We, now, have six consecutive quarters of year-over-year demand growth. TRUs increased alongside the mix of our 16th generation servers, as customers prioritize consolidation and modernization of their data centers. A significant portion of the installed base remains on 14th generation servers or older, presenting a substantial refresh opportunity with our 16G and 17G servers.

In Storage, revenue increased 6%, making it the third consecutive quarter of P&L growth, along with margin improvement year-over-year. We continue to execute in our areas of focus: Dell IP in the midrange, software-defined, unstructured, and data protection, as more and more customers move to disaggregated architectures. PowerStore demand rose double-digits, growing for five consecutive quarters. Customers value our 5:1 data reduction guarantee. And we are integrating more security into PowerStore, using advanced AI analytics.

We are gaining traction in Data Protection, with demand up double-digits in both our next-generation target appliance, as well as our software. Our mix of Dell-IP Storage continues to grow. We are capturing more value from our platforms, expanding the margin rates within our products. In CSG, momentum increased in Commercial PCs, where demand strengthened. Overall, CSG revenue rose by 5%, driven by strong Commercial revenue growth of 9%.

We, now, have three consecutive quarters of P&L growth and five consecutive quarters of demand growth in Commercial. We saw double-digit demand growth across small business, medium business, and large enterprise. Commercial demand was strongest in North America, with EMEA and APJ up double-digits. While the PC refresh remains behind prior cycles, we are seeing indicators that the installed base is upgrading to new Windows 11 PCs, many of them AI PCs. The Consumer market remains challenged. Consumer revenue declined 19%. And the industry pricing remained competitive.

Over the past three months, we have made significant advancements to the Dell AI Factory, from industry-first AI PCs to the edge and data center enhancements. We are pushing the boundaries with highly-dense, powerful, and energy-efficient AI infrastructure, leading the industry in pace of innovation.

Some examples of our recent end-to-end AI announcements:

We lead the industry with the broadest portfolio of Copilot+ capable AI PCs, shipping since March. Strategically timed with the Windows 11 refresh, this allows our customers to move to the latest technology and future proof on-device AI workloads.

We announced new Dell Pro Max notebooks and desktops equipped with NVIDIA RTX PRO Blackwell GPUs, Intel Core Ultra processors, and AMD Ryzen and Threadripper processors.

At GTC, we announced the future of deskside AI development with the Dell Pro Max with GB10 and GB300, with the latter touting 784GB of unified system memory and the power to run a trillion-parameter model. At DTW, we announced a Dell Pro Max notebook with the industry's first enterprise-grade discrete NPU capable of running a 109 billion parameter model, setting a new bar for edge inference in a mobile form factor.

On the server side, the XE9780 and 9780L: our air-cooled and liquid-cooled platforms, supporting up to 256 NVIDIA HGX B300 GPUs per rack. The XE9712 supporting NVIDIA GB300 NVL72 -- which we had the world's first sled at GTC in March. The XE7745 supporting NVIDIA RTX Pro 6000 Blackwell GPUs, with support for up to 8 GPUs in a 4U chassis.

The launch of our PowerCool platform: starting with our rear door heat exchanger that captures, cools, and recirculates 100% of the rack heat, reducing cooling energy costs by up to 60%.

We introduced the Dell AI Data Platform, which showcases fast, powerful, and scalable storage, with significant software and hardware enhancements to PowerScale and ObjectScale. It also features cutting-edge technologies like Project Lightning, a large-scale caching solution co-engineered with NVIDIA; and end-to-end data management with the Dell Data Lakehouse.

We expanded our ecosystem of partners and announced our collaboration with Google to bring Gemini on-prem -- exclusively for Dell customers -- an industry first. Additionally, we announced our partnership with the innovative Cohere to simplify the deployment of Agentic technology on-prem. We also announced the Dell Private Cloud and the Dell Automation platform, designed to make deploying, managing, and scaling private cloud environments simple. We are not only innovating for today, we are defining the future architecture of the Intelligent Enterprise. In closing, I am confident in our position and ability to execute. We are leading in AI and pushing the boundaries of innovation.

We had over \$12 billion in AI orders this quarter alone, which will drive significant revenue growth and EPS. We are enabling data center modernization and consolidation with our 16th and 17th generation servers, enabling lower TCO while reducing physical footprint. Our Dell-IP storage portfolio targets faster-growing, higher-margin segments of the market. Our Commercial PC portfolio is ideally suited for Enterprises, with a wider range of offerings and AI-capable devices.

Our industry-leading supply chain is a unique advantage in the dynamic environment we are operating in today. We are leveraging the agility and resilience we have built over the past four decades, enabling us to navigate numerous challenges over the years; and allows us to minimize the impact on our customers and shareholders. We are using Gen AI, internally, to increase the competitiveness and capability of the company. For example, our Digital Service Assistant has increased our diagnostic and resolution ability, while increasing customer satisfaction. We are well positioned today as AI accelerates and becomes more pervasive in all of our lives. There is so much more to come. And we will be leading.

Now, over to Yvonne for more details on Q1.

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

Thanks, Jeff. Let me begin with an overview of our Q1 performance. Then, I'll move to ISG, CSG, cash, and guidance. In the first quarter, we saw continued P&L growth across all of our core markets and record Q1 cash flow from operations. Our total revenue was up 5%, to \$23.4 billion. Our combined ISG and CSG business grew 8%. Gross margin was \$5.1 billion, or 21.6% of revenue. This is down 80 basis points due to a more competitive pricing environment, predominantly in CSG; and geographical mix within traditional servers. Operating expense was down 2%, to \$3.4 billion, or 14.5% of revenue, as we continue to unlock efficiencies and modernize our processes.

Now, let's look at operating income. We delivered a 10% increase to \$1.7 billion, or 7.1% of revenue. This was driven by higher revenue and lower operating expenses. Q1 net income was up 13% to \$1.1 billion, primarily driven by stronger operating income. And our diluted EPS was up 17%, to \$1.55, growing 3 times faster than revenue.

Now, let's move to ISG, where we delivered another quarter of strong performance. ISG revenue was \$10.3 billion, up 12%. Servers and networking revenue was a Q1 record of \$6.3 billion, up 16%. We saw very robust demand in AI servers, with \$12.1 billion of orders in the first quarter. And we shipped \$1.8 billion of AI servers. In traditional servers, we saw continued P&L growth. But the demand environment moderated, compared to the last quarter. Additionally, we saw lower mix of North America in traditional server, which is a higher-margin geography. Storage revenue was up 6%, to \$4.0 billion. Our third consecutive quarter of growth. We saw strong demand in our Dell-IP portfolio, specifically with PowerStore and Data Protection.

We had ISG operating income of \$1.0 billion, up 36%. This was driven primarily by higher revenue. Our ISG operating income rate was up year over year to 9.7% of revenue. The rate improvement of approximately 170 basis points was driven by revenue scaling and slightly lower operating expense and higher mix of Dell-IP storage.

As Jeff mentioned, we are focused on further increasing our mix of Dell IP vs Partner IP storage and are also driving continued product profitability improvement within our Storage business.

Now, let's turn to CSG. CSG revenue was up 5%, to \$12.5 billion. Commercial revenue was up 9%, to \$11.0 billion, while Consumer revenue was down 19%, to \$1.5 billion. CSG operating income was \$0.7 billion, or 5.2% of revenue. TRUs remained stable sequentially. And we continue to see customers prioritize richly-configured, AI-ready devices. As Jeff mentioned, we saw strong performance across small and medium business and large enterprise. In consumer, the demand environment remains soft and profitability remains challenged. We are focused on executing within CSG, leveraging our leading go-to-market engine and broader portfolio of offerings to capture the PC refresh.

Now, let's move to cash flow and the balance sheet. We had a strong cash quarter, with record Q1 cash flow from operations of \$2.8 billion. This was primarily driven by profitability and working capital improvement. We ended the quarter with \$9.3 billion in cash and investments, up \$4.2 billion sequentially. Our core leverage ratio was up sequentially to 1.6x, given our recent debt issuance.

We returned \$2.4 billion of capital to shareholders with 22.1 million shares of stock repurchased, at an average price of \$90 per share; and paid a dividend of roughly \$0.53 cents per share. Our significant share repurchases this quarter reflect our continued confidence in the business, our ability to act opportunistically during periods of price dislocation, and commitment to disciplined capital allocation. Since our capital return program began at the beginning of FY23, we've returned \$13.2 billion to shareholders through stock repurchases and dividends.

Turning to Q2 guidance. In CSG, we expect the PC refresh cycle to continue, as the install base upgrades to new devices, resulting in improved profitability sequentially.

In ISG, we expect to ship roughly \$7 billion of AI servers, as we fulfill some of our large deals. We are expecting sub-seasonal performance in traditional server and storage, our larger profit pools that provide scale, as customers evaluate their IT spend for the year, given the dynamic macro environment. Given that backdrop, we expect Q2 revenue to be between \$28.5 billion and \$29.5 billion, up 16% at the midpoint of \$29 billion.

ISG and CSG, combined, are expected to grow 19% at the midpoint, with ISG growing significantly and CSG up low-to-mid single digits. OpEx will be down low single digits year over year. We expect operating income to be up, roughly, 8%. We expect our diluted share count to be roughly 685 million shares. And our diluted non-GAAP EPS is expected to be \$2.25, plus or minus \$0.10 cents, up 15% at the midpoint.

Moving to the full year. It is early in what has been a very dynamic year. We're optimistic on our portfolio and our ability to execute. However, we want to be thoughtful of how customers think through their IT spend, relative to the macro environment. Against that backdrop, we are reiterating our full-year revenue guidance and expect FY26 revenue to be between \$101 billion and \$105 billion, with a midpoint of \$103 billion, up 8%.

We expect ISG to grow high-teens, driven by over \$15 billion in AI server shipments and continued growth in traditional server and storage. And, we expect CSG to grow low-to-mid single digits. We expect the combined ISG and CSG to grow 10% at the midpoint. Given what we expect for the first half, the full-year guide reflects slightly lower profitability expectations within CSG, traditional server, and storage. As our modernization efforts continue, we expect operating expense to be down low-single-digits year over year.

We expect operating income to be up roughly 9%. We expect I&O to be between \$1.4 billion and \$1.5 billion. We are increasing our diluted non-GAAP EPS guidance to \$9.40, plus or minus \$0.25 cents, up 15% at the midpoint, assuming an annual non-GAAP tax rate of 18%.

In closing, we had another strong quarter, with EPS growth significantly outpacing revenue and record Q1 cash generation. We are focused on executing our strategy, expanding our lead in AI and modernizing our business, all driving increased EPS growth. This will be an exciting year. I look forward to growths we see above our long-term framework and the value we will continue to deliver to our customers and our shareholders.

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

QUESTIONS AND ANSWERS

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

Thanks, Yvonne.

In order to ensure we get as to as many of you as possible, please ask one concise question.

Let's go to the first question.

Operator

Amit Daryanani, Evercore ISI.

Amit Daryanani - Evercore ISI - Analyst

Thanks a lot for being my question. My question was just on the AI server revenues.

You, folks, had some really impressive performance in Q1. I think the backlog, at \$12.1 billion, was up over \$3 billion from 90 days ago. Can you just touch on what are you seeing?

And how should we think about the fiscal '26 AI server revenue target, which I think was \$15 billion before, especially as you've seen a bigger uptick in engagement from the sovereign side and, also, some of the neo clouds that are raising the CapEx?

So just any framework on how to think about the AI server market as you go forward would be really helpful.

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

Sure. Amit, thanks for the question.

First of all, we're 91 days into the year. We got 273 more to go. But I'd like to start.

\$12.1 billion of orders in Q1, more than all of last year. We're off to a good start. But we have much in front of us.

The customer deployments that we have in front of us are large. They're complex. They have very detailed scheduled deliveries. There's lots of dependencies on this.

We've talked about this business being lumpy and non-linear. The dependencies in this business are waiting for data centers to be built, power to be provided, direct liquid cooling infrastructure put in place.

We're orchestrating a highly complex supply chain. You've probably seen the reference that a GB200 NVL72 rack has 1.2 million parts in it. Coordinating and orchestrating that across our value add, whether that be in CDUs, cold plates to rack cells, power shelves, what have you.

That's what we're working here. It's driven the backlog. We love where the backlog is, it's healthy. It's reflected. I believe the backlog is \$14.4 billion, on top of that \$12.1 billion of orders.

Probably, the interesting thing -- what I think is the most interesting thing is that we converted our five-quarter pipeline, obviously, to generate the \$12.1 billion in the growing backlog.

And the five-quarter pipeline improved. It grew sequentially. It's up significantly year over year. It's filled through lots of multiple types of technology versions of Blackwell. And it now contains sovereign.

You may have seen an announcement earlier today from the Department of Energy, around the Windows 10 and our design win there: an example of Sovereign AI. We're very excited about that.

Also, got lots to go, three quarters in front of us. I can really tell you were on the plus side of \$15 billion and feel pretty good about it. But we'll update you on how the full year goes in another quarter.

Operator

Ben Reitzes, Melius Research.

Ben Reitzes - Melius Research LLC - Analyst

Make this concise, from Paul there. So I'll do my best, Jeff.

I wanted to talk about second-half guidance. Amit went there a little bit. But if you do the \$15 billion-plus, let's call it, and including \$8 billion in the first half for AI servers, that implies, I don't know, \$3.5 billion each quarter, in the back half. I think Amit was getting at this: Is that indicative of demand?

Yvonne and Jeff, do you mind just talking about -- is that the lumpiness we're really getting, [7] going to [3.5]? Or are you just being conservative?

And then -- sorry for the multi-part, but, Yvonne, do you mind just saying, again, what you're looking for in ISG? What level of moderation, for the second half, of demand in both ISG and CSG?

Is it really significant. In order to keep your guidance, we actually have to slow down AI servers. But I'm not so sure Street numbers for the other two segments go down very much, in the back half.

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

Let's see if we can parse our way through that.

I believe, first of all, Yvonne made reference that we expect to ship \$7 billion of AI servers, on top of the \$1.8 billion that I referenced. So we're closer to \$9 billion in the first half.

I made the reference that the five-quarter pipeline continues to grow and grow significantly. It remains multiples of our backlog.

The enterprise component of that continues to grow. In fact, it's growing at a faster rate than the CSP part of that pipeline.

We're optimistic. It's early in the year. We're 91 days in. We have a couple of technology shifts in front of us. We're very excited about that.

We continue to win and differentiate ourselves with our engineering and innovation, our ability to deliver and deploy, and deploy and turning on our racks in 24 hours; and they're operating and in business for our customers.

We continue to focus on what differentiates us. I like our prospects of converting more pipeline in the second half. But, at this point, we're in the 15-plus side.

Our annual guidance that we just delivered us suggests that's exactly where we are. And I'll let Yvonne work her way through the ISG question that you had.

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

Yeah. From an ISG perspective, as I think through the full year guide, we are early on, right? And so, we have been thinking that as we are, I'd say, historically, a bit conservative in how we look at the year, we have held holistically on the year, right now, given what we're seeing in the dynamic environment.

I am really excited about the AI opportunity. Obviously, we have a significant backlog already and that will continue to expand. But, at this juncture, we think we should remain on what we have put out for the guide and not do any dynamic increases there.

Operator

Erik Woodring, Morgan Stanley.

Erik Woodring - Morgan Stanley & Co LLC - Analyst

Hey, guys. Thank you. Thank you so much for taking my question.

Jeff, obviously -- Ben and Amit have touched on it -- really strong commentary on AI servers. I would love to just get a little bit more color from you on the potential the storage and services attach opportunity, alongside AI servers.

Obviously, there was commentary more than a year ago about a pretty big opportunity there. And I'm just wondering: as you've seen this market evolve with CSP customers, enterprises, sovereigns, when can we think about that attach opportunity really starting to materialize? Any way to size how to think about the attach? And anything that you could help us understand for margin impact there?

Just some more context would be helpful there.

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

Sure. I think part of the answer lies in what we announced at Dell Technology World, which is an expansion of our storage portfolio, the storage capability, our Data Management Platform, the Dell Automation Platform. Those things are all important, as we're building out the portfolio of pluses around the specific AI server node in the rack.

We made reference to Project Lightning last week. I continue to be excited about the opportunities there.

We've made -- I would probably cast it as -- a modest improvement in our storage and networking attach. We've made significant improvement in our deployment and installation services attach.

It is what's actually differentiating us in the marketplace, our ability to do L11, L12, did it, deployed, installed and ultimately operational in a short period of time. That continues to differentiate. It's being valued by our customers.

And if I extrapolate that to what can be done in enterprise, it's the same opportunity. In fact, we think the opportunity to attach storage, particularly as the data structure needs more object storage and our assets in the unstructured space, we have a differentiated advantage.

We're going to continue to invest in that portfolio. The opportunity in networking is there. And, obviously, the services that I just mentioned are equally important in an enterprise as they are in the largest clusters in the world.

So we remain optimistic. We have work to do. I would not be truthful if I said we were satisfied. We are not satisfied with the attach, to date. I think that there's all upside and opportunity.

Our sales team is focused on that. And we continue to find opportunities to differentiate our portfolio, look at some of the subsystems in our performance and the attributes that it brings to what's being done in these modern workloads. And we're very optimistic about that.

I think I've made reference in the past: as these modern workloads evolve, it's clear that the disaggregated storage architecture is the path to the future. I think we have the best portfolio in that. And we'll continue to focus on that with our customers.

Operator

Wamsi Mohan, Bank of America.

Wamsi Mohan - BofA Securities, Inc. - Analyst

Yeah. Thank you so much.

Maybe, a quick clarification. Are you assuming any impact from tariffs in your numbers, at all?

And, for my question: Given the significant ramp of AI servers and sort of what you're guiding incrementally for next quarter, I'm calculating a low single-digit operating margin on the AI servers. Would you agree with that? And how should we think about the progression of gross margin?

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

Well, maybe a couple of sound bites. And then, Yvonne can add to this.

Our guidance for the year, for Q2, includes everything that we know about tariffs, as of today. We were able to navigate that, I believe, successfully.

I think we viewed the input cost to our business as deflationary in Q2. That's inclusive of tariffs. And we're very confident that what we conveyed in the form of our outlook is very inclusive of our cost associated with tariffs.

We did not make any price moves in the quarter. We were steady. We have been through this before. And I think we weathered the storm quite well and ultimately, took care of our customers and served them quite well.

When I think about AI and the numbers that we gave, the \$7 billion of incremental revenue. When you look at it, I believe it's roughly \$4 billion on a year-over-year basis. It's roughly \$5 billion on a quarter-over-quarter basis.

It drives significant gross margin dollar growth on both a year-over-year and quarter-over-quarter basis. It drives significant operating income dollar growth on a quarter-over-quarter and year-over-year basis.

I'll put that over to Yvonne. She can add more color.

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

Yeah. I'd say embedded within the guide is a 10% quarter-over-quarter increase in gross margin dollars.

As Jeff mentioned, what we're seeing in ISG quarter over quarter is [bout \$5.3 billion more revenue, with roughly \$0.5 billion more in operating income, which is being driven by AI server profitability and, to a lesser extent, improvement in the profitability within our storage portfolio.

Operator

Michael Ng, Goldman Sachs.

Michael Ng - The Goldman Sachs Group, Inc. - Analyst

Hi, good afternoon. Thanks for the question. Just have two on AI servers.

I was just wondering if you could comment on the AI server profit outlook for the full year? I think you reiterated the revenue and OpEx outlook, despite the lower profit assumptions on CSG, traditional servers, and storage. So does that imply that the AI server profit outlook was raised? Are you still expecting ISG margins to be flat year over year in fiscal '26?

And then, secondly, I was just wondering if you could talk a little bit about some of the AI server orders that happened in the last two months, after you gave that update at the end of February. Were there any key customer types or texture to the orders that you could just help to characterize?

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

Why don't I start with the guidance and the ISG profitability?

For the full year, I just talked on it, we are expecting rates to be down, going forward. But we're seeing that reflective of what we saw in the first half, right? So what we saw in the first quarter, plus what we're expecting in the second quarter. And, overall, it's driven by lower profitability in traditional service and CSG. Holistically, when we're talking about AI, we're seeing those dollars being accretive into our P&L.

Storage margins are also improving nicely. And we expect that to continue over the year, as we lean more into our Dell IP mix. And so, that's good to expect also. So ISG margins will expand throughout the year, as we see the typical seasonality within that part of the portfolio.

I don't know. Jeff, is there anything you'd add to that?

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

I would re-emphasize the point that we made: it's the driving behavior in our AI business. It's driving gross margin dollar accretion and operating income dollar accretion. There's a sizable AI business that, with the overall rate, of course, it does.

We're looking at it in absolute dollars in every scenario that we've now conveyed to you in our guidance for both the quarter and the year, which drives operating income dollar growth and gross margin dollar growth.

So I think it's something we continue to focus on. That's important to us. And that is the driving behavior of how we're running this business.

In terms of orders, clearly, I won't talk about specific customers. We saw CSP customers, we saw enterprise customers. The number of enterprise customers grew, the number of repeat enterprise customers grew, as well.

Our enterprise growth is exciting, with over 3,000 customers now buying various forms of our Dell AI Factories. You saw a mix from Hopper technology and Blackwell technology across those. We saw it with ARM and x86. So a great cross representation there.

Maybe, that's the color and context, I guess texture underneath that part within -- what we saw in Q1.

Michael Ng - The Goldman Sachs Group, Inc. - Analyst

Great. Super helpful. Thank you.

Operator

Samik Chatterjee, J.P. Morgan.

Samik Chatterjee - JPMorgan Chase & Co. - Analyst

Great. Hi. Thanks for taking my question.

Maybe, just more broadly, in terms of your customer behavior, just curious if you've seen any pull-forward? I know you're managing the tariff environment pretty well but not so much as everyone in the industry.

So have you seen customers pull forward some demand? And, particularly, when we think about the caution that you have related to traditional servers and CSG? Are you treating that more as customers just being cautious about the macro or more being in digestion after a pull forward of demand from your customers?

Thank you.

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

I'm certain, we had some customers pulling demand. They certainly saw what was happening in the marketplace and how dynamic things were. And there's no way to say that that didn't happen. I'm sure it did. To what degree? I don't know.

What we know is that, for example, if I separate the businesses, we're in the middle of a race to refresh. We have the Windows 10 expiration in the PC business. We see good traction. We're clearly in the refresh cycle. It's certainly behind others. But indications are we are seeing good growth.

I think I mentioned in my remarks that North America and EMEA and APJ all grew double digits, from a demand perspective.

We did see a slowdown in month 3. Month 1 was greater than January. Month 2 was greater than February. Month 3, slowed in Weeks 10 through 12. And, actually, all 3 US businesses, commercial PCs, traditional servers, and storage.

So, clearly, there is a bump along the journey there. Yvonne made reference to that with a slowdown in our traditional server business.

A pull ahead? We are still optimistic about the year. We have all of the businesses growing. We are, maybe, a little more muted in what we think in those businesses. They may be down 1 point, in terms of our absolute market growth. I don't think anyone knows.

But when you look at traditional servers, you look at storage, the other two businesses that I was referring to: again, both were growing nicely. North America speed bumped Week 10 through 12 in month 3, worked our way through that. We now have that reflected in our guidance in Q2.

Operator

Asiya Merchant, Citi.

Asiya Merchant - Citigroup Inc. - Analyst

Great. Thank you for taking my question.

If you could just talk a little bit about the competitive dynamics, just given the macro environment -- a little bit of slowdown that you're seeing here, the fact that you didn't raise prices.

Just help us understand how the competitive responses were and if some of the guidance that you're providing reflects, maybe, a heightened competitive intensity? Or is this more just macro and just being prudent, given your customer behavior that you just outlined?

Thank you.

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

Sure. Let me take a run at that.

In CSG, specifically commercial PCs -- look, ASPs remain relatively stable in the marketplace. There are certainly some complications or some dynamic behavior associated with tariffs that we certainly weathered through. We did not raise list price. We saw an actual increase of AI PCs, as we're ramping our new products to help us stabilize our ASPs.

I talked about the speed bump that we had in month -- or, excuse me, Weeks 10 through 12 and Month 3 of the quarter. That was really the United States. Commercial bids? they're no different than they were in Q1 or they were in the latter part of last year, large bids are typically aggressive. We see transactional pricing much more stable and disciplined.

Consumer PCs remains aggressive, with a promotional bent to it. So a high percentage of commercial -- excuse me, consumer PCs remain in the promotional pricing kind of price bands. And that's what the business is. I don't see it changing in Q2.

We are in this race to refresh in commercial PCs. We launched a whole new series of products that are AI PCs that we're excited about. We're actually seeing an uplift in those customers that buy AI PCs and uplift in ASPs, as I mentioned, that's stabilized overall ASPs. And the cost environment we're going to operate in, we believe, is deflationary, inside our CSG business.

If I move over to ISG, again, large deals, large customers, they are aggressive. It's not different. It's always been the case. It continues to be the case. There might have been a slight increase of some of more aggressive deals. But nothing really to write home about, if you will.

Core server margins were relatively stable. The issue we had that Yvonne and I have both tried to talk about is the slowdown of that traditional server business in North America in the quarter. We didn't see any change from our side or our competitors' behavior. We did not make a mispricing on all of the tariff work -- all the tariff work that we can mitigate, when others did.

And in storage, no major price moves. It's been pretty benign, pretty consistent. Big wins are aggressive. That's not unusual. So that's the competitive environment.

Asiya Merchant - Citigroup Inc. - Analyst

Thank you. That's great. Thank you for the color.

Operator

Krish Sankar, TD Cowen.

Krish Sankar - TD Cowen - Analyst

Yeah. Hi. Thanks for taking my question.

Jeff, I just want to follow up on an earlier question on the historic attach rate. Last week, at Dell Technology World, you introduced the ObjectScale platform, which can do up to 1,000 nodes. I'm curious.

Number 1: Do you think some of these private storage companies, which have higher nodes, are eating shares from the legacy storage companies? And, number 2, do you need to be designed in on AI training to get the AI inference business? Or do you think they're like, agnostic, to each other?

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

I'll start with the latter one first. No. They're two different use cases or two different applications in AI.

Clearly, we're trying to win both -- when you look at, I think, I've even made references on this call before: AI devours data. Training large models devour its data. And, quite frankly, even the example when I was on stage last week, at DTW, talking about Our digital service assistant, it consumes a lot of data inside our company; around 5 specific data sources are repaired data, our dispatch data, our telemetry data, our knowledge base, and our call logs. That's very representative of an enterprise class use case, lots of data.

In that case, it is an object, file system serving up that information quite fast to the computational engines to make the recommendation. And I think the same thing happens when we talk about large data sets and enterprises being consumed by AI inference, which ultimately becomes AI conference reasoning; but, ultimately, becomes agentic technology, going forward.

So I'm very optimistic about the storage opportunities on Enterprise.

And then, these fast subsystems, whether that's a true parallel file system like Project Lightning that's designed for AI first -- what we've done with our PowerScale, ObjectScale, building up the portfolio -- a number of announcements we made last week.

We are building a high-performance file systems and storage systems in this disaggregated storage world, where it is really new to a flexible, agile, high-performance storage system, to meet the needs of these AI workloads.

That's what we're building. That's what we're focused on. You got a big glimpse of it last week at Dell Technologies World.

Back to the attached conversation, we think that's the bridge for us to continue to improve our attach rate, going forward.

Operator

David Vogt, UBS.

David Vogt - UBS Securities LLC - Analyst

Great. Thanks, guys, for taking my question.

Jeff, on AI, to keep it very simple, what is the type of demand that you're seeing in the quarter, from an order perspective and what you're shipping? The reason I'm asking is you've got this fairly well -documented GPU transition out there that has plagued, maybe, some of your competitors.

So what are you doing differently? What are you seeing from customers? And when you think about that backlog that you're sitting at 14, spot 4, how would you characterize the flavor of that backlog, from a technology perspective?

Thank you.

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

Well, the backlog is primarily Blackwell. It has a combination of GB or ARM-based Blackwell, with x86 Blackwell; and have some Hopper in it, as well. And, yeah, these systems are complex. They're not for the faint hearted. This is where real engineering, I believe, matters; where innovation matters.

The custom design nature in some of these very large deployments are unique, pushing the envelope, working with our partner NVIDIA; and, specifically, they are customers to design a custom solution that meets these needs.

Now, they're designing it, delivering it. And having it work at volume or at scale is equally as difficult. And then, when you deliver it, as I made referenced earlier, it actually works.

We are moving towards when we deliver and it is delivered at our customer site, it's upfront operational within 24 hours, challenge anybody to see if they're close to that.

I think we continue to differentiate ourselves. This is the opportunity. Blackwell challenges many engineering principles. We think we're working our way through them. We're excited about new versions of Blackwell, as they come out later in the year.

And then, obviously, next year's design that we made is referenced to in the press release this morning on Windows 10, where it's going to provide 10 times more performance than the current implementation.

And that's the next-generation platform between Dell and NVIDIA. So we're excited.

David Vogt - UBS Securities LLC - Analyst

Great. Thanks, guys.

Operator

Simon Leopold, Raymond James.

Simon Leopold - Raymond James Financial, Inc. - Analyst

Great. Thank you for taking the question.

I want to see if, maybe, you could help us bridge the trends in your ISG operating margin in that -- I know there's some seasonal aspects to it that we saw but, last quarter, you did have significant operating margin improvement and less year-over-year improvement this quarter.

So if you could unpack the trends there and included in that, did you have any inventory write-downs or any excess inventory like Hopper or anything like that that might have affected the operating margins in ISG?

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

In ISG, the operating rate was down quarter to quarter. And that's seasonally what happens, right? Going from Q4, our highest performing quarter. In fact, we had record operating income of 18.1% in Q4. So normal seasonality there coming in.

But slightly more than -- in Q1, slightly more than what we're expecting. That's because of a few things. Traditional servers were impacted by lower North America mix, which we've already talked about, which is higher margin, as well as more large deals. Again, we, we've talked about that. And those large deals are continued to be competitive.

We did improve our operating income rate though, 170 basis points. And we're going to maintain all that while driving up our Dell IP mix within our storage portfolio. I'd mentioned, also, lower operating expense.

So I think we're on the path of normal seasonality from Q4 to Q1. And then, we'll see that as our storage portfolio continues to build across the year.

Now, in Q2 we've already talked about how we're going to have a high mix of AI servers that we're expecting to be shipped. So if you're if you're going to focus on rates, we will have a rate impact there.

But we will be driving significant margin dollars and operating income dollars quarter over quarter, based upon how we're guiding. And that's coming from the entire portfolio, inclusive of our AI servers.

Thanks.

Operator

Mehdi Hosseini, SIG.

Mehdi Hosseini - Susquehanna International Group, LLP - Analyst

Yes, sir. Thanks for taking my question.

One quick follow-up. Just going back to the backlog you reported for April quarter, based on a \$12 billion booking. It's a huge number. Should we expect this booking in the backlog is good for, like, the entire fiscal year?

And I'm asking this just to better set the expectation, should we expect a sharp decline in orders into July and then, a rebound? Or is this order enough for the entire fiscal year?

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

Well, we're 91 days into the year, with \$12.1 billion of orders to date, with a five-quarter pipeline that is significantly greater than the backlog of \$14.4 billion. We're going to ship \$7 billion of that backlog in Q2. And we're going to go try to convert -- that's our job, convert the pipeline in Q2 and second half into orders.

Our best outlook is that we're in the 15-plus range of shipped revenue. We'll continue to work and drive backlog and convert pipeline into backlog.

The composition of the backlog does have orders that are delivered beyond Q2, based on customer delivery schedules, which is dependent on their buildings, power, cooling solutions, their ability to take it.

We're pretty, I think, tied out. We are tied out with our customers there. We know our delivery schedules. And we've communicated delivery schedules, our ability to ship \$7 billion in the quarter -- and that's going to convert more revenue of that pipeline, going forward.

And we'll update you on what we think the entire AI year looks like, if there's an update in Q2.

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

But we're optimistic about the additional opportunity that's there.

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

15-plus, with a capital P, capital L, capital U, capital S.

Operator

Matthew Niknam, Deutsche Bank.

Matthew Niknam - Deutsche Bank Securities Inc. - Analyst

Hey, guys. Thanks so much for taking the question.

I had a quick follow-up on servers and a question on cash flow.

On the server side, is there any indication that the incremental spend for AI servers may be crowding out or negatively impacting traditional server spend? Or is that softness more macro related?

And then, just on operating cash flow -- very strong 1Q. Yvonne, maybe, I'm curious if you'd call out any one-off or non-recurring benefits in the quarter? And then, maybe, just directionally, how to think about subsequent quarters.

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

Yeah. Let me take the first question.

I think we said it in our prepared remarks: Q1 marked the sixth consecutive quarter of demand growth in our traditional server business. We, the industry -- we, Dell -- expected growth to moderate in fiscal '25. And it clearly has.

We've updated our market models. We believe the market is somewhere in that 4% to 5% revenue growth range for traditional servers. We'll outperform that and take share.

Our guidance reflects our best understanding where the market is, our ability to grow against that. Yvonne made reference that our Q2 server revenue is below seasonality.

I think that is prudent, given what we've learned in Q1, specifically around the slowdown in Month 3, Weeks 10 through 12 in North America, specifically the United States.

We're still optimistic. We're going to continue to grow. We see server ASPs continue to rise. We continue to see core count go up. We continue to see memory content go up. We continue to see storage content go up, which continues to tell us that consolidation is well underway.

Customers are looking to consolidate traditional workloads to find space, power, and cooling to fuel new AI workloads. And, if you like the opportunity side of this, half of our installed base is 14G servers. And the opportunity to replace them at a 3:1, 4:1 with a 16G server or 6:1 to 7:1 with a 17G saver.

It's ripe for the picking. That's what we're going to continue to focus on. And we think the opportunity is there.

Tyler Johnson - Dell Technologies Inc - Director, Senior Vice President

Matt, let me jump in. This is Tyler. Let me jump in on the cash flow question.

You said it: really strong quarterly cash flow. I'll remind you that when we ended Q4, on that call, I talked about the fact that when we saw a year like that, with lower cash flow and working capital metrics where they were, typically, that's followed by a fairly strong year.

And I think that's just what we're seeing -- is the beginning of that. There is nothing unique. There is no one-off impact that generated that.

I will take the opportunity to point out that we did see an increase in payables. That's a temporary increase. It's cash neutral because there's an offset. We're going to see that normalize this quarter.

The reason I want to point that out is because that large increase is not the driver of cash. And when you see that come back down and normalize, that's not going to be a negative impact to cash.

If you look at CCC, we normalize for that. We would have been in the low 30's. And that's compared to -- we ended negative 31 days in Q4. Net-net, there was a benefit from working capital. So that, plus profitability, is what drove cash flow.

A great job. We were able to use that to return \$3.4 billion to our shareholders.

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

Thanks a lot, Matt. That's the last question.

I'll hand it to Jeff to close.

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

Thanks, Paul. Thanks, everyone, for joining us today.

As we wrap up, I want to emphasize a few key points from today's call.

First. Our momentum in AI is unmatched. We booked over \$12 billion of orders this quarter alone, which will drive meaningful revenue and EPS growth, going forward.

Second. Our supply chain is a unique advantage that enables us to respond, with discipline and agility, to minimize any impacts, as demonstrated in the first quarter.

Third. In a dynamic environment, we are reiterating our full-year revenue guidance and raising our EPS guidance.

We will continue to do what we do: drive growth, profitability, and shareholder return. Thanks for your time today.

Operator

This concludes today's conference call.

We appreciate your participation.

You may disconnect, at this time.
