Dell Technologies Q2 FY'26 Earnings Call

Thursday, August 28th, 2025

Paul

- Thanks everyone for joining us. With me today are Jeff Clarke, Yvonne McGill and Tyler Johnson.
- Our earnings materials are available on our IR website and I encourage you to review 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.

Jeff

- Thanks Paul, and thanks everyone for joining us.

Q2 Highlights

- We had a strong operational execution in the second quarter, with record AI shipments.
- Our revenue was a record $29.8 billion dollars, up 19%. ISG and CSG were up 22%.
- Earnings per share (EPS) increased by 19%, to $2.32, marking a Q2 record.
- Our modernization work continues to enable internal efficiencies, driving decoupling of revenue growth and operational expenses, which were down 4% while continuing to invest in R&D.
- This strong performance resulted in another quarter of robust cash generation and significant capital returns to shareholders.
- ***Now, let's move to AI - which remains a significant tailwind.***
    - We continued to see strong demand for AI servers, building on the exceptional demand observed in Q1.
    - We booked $5.6 billion in orders in the second quarter and shipped a record $8.2 billion, resulting in an ending backlog of $11.7 billion.
    - For context, we have shipped more AI servers in the first half of this year than all of last year.
    - Our five quarter pipeline continued to grow sequentially, with double digit growth across Enterprise and Sovereign opportunities.
    - Our pipeline remains multiples of our backlog.

- Enterprise orders and our buyer base grew sequentially in Q2, distributed across various industries - such as Financial Services, Healthcare, and Manufacturing.
    - And we are seeing strong Enterprise interest in our new NVIDIA RTX Pro 6000 AI Factory solutions.
    - These turnkey solutions provide the performance, flexibility and power-efficiency enterprises need to manage the entire AI lifecycle at any scale, with air-cooled and PCIe options available.
- As I mentioned last quarter, our execution in AI continues to be a key differentiator.
    - We are innovating at an unprecedented pace, engineering at-scale solutions for customers while remaining agile to rapidly changing customer roadmaps and architectures.
    - We were the first in the world to ship both the Nvidia GB200 NVL72 solution last year and the GB300 NVL72 in July to CoreWeave — two great examples of our speed-to-market in an environment where speed matters.
    - Customers are seeing real-time the value in our ability to deploy large clusters quickly and reliably.
- Our execution, value-add through engineering, and ability to Dell-design and even Dell-manufacture components within our at-scale data center solutions drive margin rate improvement within AI.

* ***In Traditional Servers,*** revenue grew again. We now have six consecutive quarters of Y/Y P&L growth.

- From a demand perspective, International markets grew, but the April weakness we saw in North America continued.
- TRUs grew double digits as customers prioritize richly configured servers given their focus on density and power efficiency - driven by a higher mix of our 16th generation servers.
- We have completed the launch of our 17th generation portfolio of servers, designed for ultimate performance, reliability, and security… giving customers the ability to consolidate workloads to make room for AI and to drive broader data center efficiencies.
- There's still significant opportunity ahead as over 70% of the installed base is running on 14th generation servers or older.

- ***In Storage,*** revenue was down 3% and demand moderated.
    - We saw double-digit demand growth in PowerStore, which has grown 6 consecutive quarters, 5 of those up double digits, fueled by very strong Channel participation.
    - Within PowerStore, 46% of the buyers were new PowerStore customers and 23% were new to Dell Storage.
    - All Flash Storage saw strong growth, driven by strength in our All Flash offerings across PowerMax, PowerStore, PowerScale, and ObjectScale.
    - Our focus remains on driving not only growth but also expanding profitability in Storage by increasing our mix of Dell-IP Storage and improving margins within each product.
- ***In CSG,*** we saw momentum continue, although not at the pace we expected.
    - Overall, CSG was up 1% and Commercial was up 2%.

- We now have four consecutive quarters of P&L growth, and six consecutive quarters of demand growth in Commercial.
- Commercial demand grew double digits in EMEA with continued growth in North America and APJ, but to a lower extent.
- We saw strong demand growth across small and medium business, which helped drive profitability improvement.
- Consumer revenue declined 7%, but profitability improved as we did a better job on positioning our products, plus we were in a deflationary environment.
- We expect moderate growth as the PC refresh continues, driven by an aging installed base and the Windows 10 end-of-life, which is now 48 days away.
- To fully seize the refresh opportunity, we've taken steps to improve execution and expand our PC TAM. For example, just this morning we launched a new business notebook specifically designed to win the entry-level commercial PC market. This is indicative of the fast, strategic actions we're taking to drive growth and gain share, while operating within our 5-7% long-term profitability targets.

<u>Close</u>

- ***In closing***, I'll wrap it up by saying we are pleased with our overall performance.
    - We had another strong quarter with record revenue.
    - EPS grew well above our long-term value creation framework.
    - We generated strong cash and shareholder return.
    - And we are building a better company with our modernization work.

- Our innovation engine is firing on all cylinders.
- And the opportunity is showing no signs of slowing down, with the AI hardware and services TAM expected to double from $184B last year to $356B in 2028.
- And we are doing the work internally to adapt rapidly to evolving customer needs.
- We really like our hand.
- Now let me turn it over to Yvonne to talk about Q2 in more detail.

Yvonne

- Thanks Jeff.
- Let me begin with an overview of our Q2 performance then I'll move to ISG, CSG, cash and guidance.
- In the second quarter, we saw record revenue and also delivered a Q2 EPS record.
- Our total revenue was up 19%, to $29.8 billion dollars.
- Our combined ISG and CSG business grew 22%.
- Gross margin was $5.6 billion dollars, or 18.7% of revenue. Gross margin rate was driven primarily by a mix shift to AI servers due to record AI shipments.
- Operating expense was down 4% to $3.3 billion dollars, or 11.0% 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 $2.3 billion dollars, or 7.7% of revenue. The increase in operating income was driven by higher revenue and lower operating expenses, partially offset by a decline in our gross margin rate.
- Q2 net income was up 13% to $1.6 billion dollars, primarily driven by stronger operating income.
- And our diluted EPS was up 19% to $2.32, a Q2 record.
- Now let's move to ISG, where we delivered another quarter of strong performance.

ISG

- ISG revenue was a record $16.8 billion dollars, up 44%. This marks six consecutive quarters of double-digit revenue growth.
- Servers and networking revenue was a record of $12.9 billion dollars, up 69%.
- Demand for AI remained strong with $5.6 billion in orders in the second quarter, and we shipped $8.2 billion of AI servers.
- In traditional servers, we saw continued P&L growth driven by strong TRU expansion as customers consolidated and modernized their data centers.
- Storage revenue was down 3% to $3.9 billion dollars as demand was softer than anticipated.
- PowerStore continued its double digit growth trajectory, with six consecutive quarters of growth.
- We had ISG operating income of $1.5 billion dollars, up 14%, a Q2 record and has been up double-digits for five consecutive quarters. This was driven primarily by higher revenue.
- Our ISG operating income rate was down Y/Y to 8.8% of revenue.

    - As we have outlined before, the mix of our AI business will have an impact to our margin rates.
    - In the second quarter, we saw a significant shift in our mix to AI as the team executed very well and drove record AI shipments.
    - This was the primary driver of our operating income rate this quarter, partially offset by lower operating expenses.
    - Given our engineering differentiation and integration, we expect our AI margin rates to improve in the second half.

CSG

- Now, let's turn to CSG.
- CSG revenue was up 1% to $12.5 billion dollars.
- Commercial revenue was up 2%, to $10.8 billion dollars, while Consumer revenue was down 7% to $1.7 billion dollars.
- CSG operating income was $0.8 billion dollars, or 6.4% of revenue.
- TRUs remained stable sequentially and we continue to see customers prioritize richly configured, AI-ready devices.
- Our mix of small and medium business and transactional increased, driving an improvement in profitability.
- In consumer, profitability improved due to better execution and a deflationary environment.

Cash flow and B/S

- Now, let's move to cash flow and the balance sheet.

- We had another strong cash quarter, with cash flow from operations of $2.5 billion dollars.
- This was primarily driven by profitability and revenue growth.
- We ended the quarter with $9.8 billion dollars in cash and investments, up $0.5 billion dollars sequentially.
- Our core leverage ratio is at our target of 1.5x.
- We returned $1.3 billion dollars of capital to shareholders with 8.0 million shares of stock repurchased at an average price of $114 dollars per share and paid a dividend of roughly $0.53 cents per share.
- Since our capital return program began at the beginning of FY23, we’ve returned $14.5 billion dollars to shareholders through stock repurchases and dividends.

<u>Guidance</u>

- **Turning to guidance.**
- We saw strong AI shipments in the first half, delivering $10 billion dollars of AI servers - more than the entirety of last year.
- We are raising our AI server shipment guidance $5 billion dollars to $20 billion dollars, with shipments slightly weighted to the third quarter.
- We expect the demand environment we saw in the second quarter for Traditional servers and Storage to persist into the second half.
- In CSG, as the PC refresh cycle continues, we are focused on improving our execution to grow revenues and gain share.

- Overall, we expect profitability to improve in the second half across CSG and ISG, and specifically within AI servers.
- Given that backdrop, we expect Q3 revenue to be between $26.5 and $27.5 billion dollars, up 11% at the midpoint of $27 billion dollars.
- ISG and CSG combined are expected to grow 13% at the midpoint, with ISG up low twenties and CSG up mid single digits.
- Opex will be down low single digits.
- We expect Operating income to be up roughly 7%.
- We expect our diluted share count to be roughly 681 million shares.
- And our diluted non-GAAP EPS is expected to be $2.45, plus or minus $0.10 cents, up 11% at the midpoint.
- **Moving to the full year.**
- We are raising our full year revenue guidance and now expect FY26 revenue to be between $105 billion and $109 billion dollars, with a midpoint of $107 billion dollars, up 12%.
- We expect ISG to grow mid-to-high-twenties, driven by AI server shipments and continued growth in traditional servers, and we expect storage to be flat for the year.
- We continue to expect CSG to grow low-to-mid single digits.
- We expect ISG and CSG combined to grow 14% at the midpoint.
- The full year guide reflects improved profitability in the second half for ISG and CSG.
- We continue to execute our modernization efforts, and we expect operating expense to be down low single digits.

- We expect Operating income to be up roughly 10%.
- We expect I&O to be between $1.4 and $1.5 billion dollars.
- We are increasing our diluted non-GAAP EPS guidance to $9.55, plus or minus $0.25 cents, up 17% at the midpoint, assuming an annual non-GAAP tax rate of 18%.

Close

- In closing, we had very strong results with record revenue and a Q2 record for EPS.
- We have a broad portfolio with many operational levers that provide the ability and flexibility to hit our commitments.
- I have four key priorities:
    - First, enable and drive revenue growth and share gains in the business.
    - Second, do the first one profitably.
    - Third, continue our modernization efforts.
    - And lastly, generate significant cash flow and continue our track record of strong capital return to shareholders.
- I look forward to seeing many of you at our Securities Analyst Meeting on October 7th.
- There, we will discuss our optimism on the growth and value creation opportunities that lie ahead.
- Now I'll turn it back to Paul to begin Q&A.