

TRANSCRIPT

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PRESENTATION

Operator

Good afternoon, and welcome to the fiscal year 2026 second quarter financial results conference call for Dell Technologies Inc. I'd like to inform all participants, this call is being recorded at the request of Dell Technologies. This broadcast is a copyrighted property of Dell Technologies Inc. Any rebroadcast of this information in whole or part without the prior written permission of Dell Technologies is prohibited. (Operator Instructions)

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

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, everyone, for joining us. With me today are Jeff Clarke, 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 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 web deck and our SEC filings. We assume no obligation to update our forward-looking statements.

Now I'll turn it over to Jeff.

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

Thanks, Paul, and thanks, everyone, for joining us. We had a strong operational execution in the second quarter, with record AI shipments. Our revenue was a record \$29.8 billion, up 19%. ISG and CSG were up 22%. Earnings per share 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 continue 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. 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're 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 life cycle 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 road maps 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-scale clusters quickly and reliability. 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 year-over-year 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 six consecutive quarters, five of those up double digits, fueled by very strong channel participation.

Within PowerStore, 46% of the buyers renewed 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 and 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, 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 are in a deflationary environment.

We expect moderate growth as the PC refresh continues, driven by an aging installed base in the Windows 10 end of life, which is now 48 days away. To fully seize the refresh opportunity, we have 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% to 7% long-term profitability targets.

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 \$184 billion last year to \$356 billion 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 McGill - Dell Technologies Inc - Chief Financial Officer

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.

Our combined ISG and CSG businesses grew 22%. Gross margin was \$5.6 billion 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 or 11% 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 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, 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 revenue was a record \$16.8 billion, up 44%. This marks six consecutive quarters of double-digit revenue growth. Servers and networking revenue was a record of \$12.9 billion, up 69%.

Demand for AI remains 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 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, 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 year-over-year to 8.8% of revenue. As we have outlined before, the mix of our AI business will have an impact on 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.

Now let's turn to CSG. CSG revenue was up 1% to \$12.5 billion. Commercial revenue was up 2% to \$10.8 billion, while consumer revenue was down 7% to \$1.7 billion. CSG operating income was \$0.8 billion 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.

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. This was primarily driven by profitability and revenue growth. We ended the quarter with \$9.8 billion in cash and investments, up \$0.5 billion sequentially. Our core leverage ratio is at our target of 1.5 times.

We returned \$1.3 billion of capital to shareholders, with 8 million shares of stock repurchased at an average price of \$114 per share, and paid a dividend of roughly \$0.53 per share. Since our capital return program began at the beginning of FY23 and we've returned \$14.5 billion to shareholders through stock repurchases and dividends.

Turning to guidance. We saw strong AI shipments in the first half, delivering \$10 billion of AI servers more than the entirety of last year. We are raising our AI server shipment guidance \$5 billion to \$20 billion, 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 revenue 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 billion and \$27.5 billion, up 11% at the midpoint of \$27 billion. ISG and CSG combined are expected to grow 13% at the midpoint, with ISG in the low 20s 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, 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, with a midpoint of \$107 billion, up 12%. We expect ISG to grow mid- to high 20s 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 billion and \$1.5 billion.

We are increasing our diluted non-GAAP EPS guidance to \$9.55, plus or minus \$0.25, up 17% at the midpoint, assuming an annual non-GAAP tax rate of 18%.

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

I look forward to seeing many of you at our Security 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.

QUESTIONS AND ANSWERS

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

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

Operator

Aaron Rakers, Wells Fargo.

Aaron Rakers - Wells Fargo Securities LLC - Analyst

Yeah, thanks for taking the question. I guess, Jeff, kind of just hitting on the AI discussion out of the gate. You've raised your full year target of \$20 billion plus, up from \$15 billion last quarter. You've got a great Blackwell ultra product cycle with the GB300 kind of kicking in.

So I'm curious, given that you did \$8.2 billion this last quarter, I guess, implying, call it, \$5 billion to \$6 billion plus or minus throughout the next couple of quarters. What is your ability to kind of flex upward and the capacity to see continued upside to even that \$20 billion? Thank you.

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

Sure. Maybe to bridge from our discussion 90 days ago, we said \$15 billion would sound like a plus with a capital, P-L-U-S, and I think we delivered upon that in our guide at \$20 billion. It's an exciting category. You've heard us talk about the numbers, but I always sit back and like to reflect on so far through the first half of the year, we've sold \$17.7 billion of AI infrastructure, then we shipped \$10 billion of that, which would imply we'll ship about \$10 billion in the second half equal to the \$20 billion.

The five-quarter pipeline continues to grow. And exciting in that pipeline as we saw the sovereign opportunities and the enterprise opportunities grow double digits. But there's complexity here and the complexity lies into these are large-scale deployments.

Many have scheduled deliveries and those scheduled deliveries are dependent on things like buildings being ready, power being installed, cooling being installed. And they are managing a very complex supply chain and a transition as you called out to Blackwell Ultra.

We're excited about Blackwell Ultra as we are about the rest of our NVIDIA portfolio. The demand continues to be – I think we've said this every quarter, continues to come in lumpy. It's non-linear. And our guide is the best estimate that we have at this time.

But I'll tell you, we're not slowing down. We have every intention to convert that very large pipeline into incremental orders. We're going to run through. Our goal is to run through the \$20 billion, and it feels like a plus. And we have more than adequate capacity to take that through our manufacturing network to be able to deliver upon that as we work to convert those orders in time. I hope that helped.

Aaron Rakers - Wells Fargo Securities LLC - Analyst

Yeah, thanks, Jeff.

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

Thanks, Aaron.

Operator

Wamsi Mohan, Bank of America.

Wamsi Mohan - Bank of America - Analyst

Yeah, thank you so much. Nice to see the upward revision and momentum in AI servers. When I look through your third quarter and implied fourth quarter guide, it seems like the profit flow-through will improve quite significantly as you go into the fourth quarter.

And I was hoping maybe you can help us think through the components of change as we go from second to third and third to fourth from a profitability standpoint because it feels like a meaningfully higher step-up in the fourth quarter. Thank you so much.

Yvonne McGill - Dell Technologies Inc - Chief Financial Officer

Sure, Wamsi. Why don't I take a run at that? CSG for the second half, I'll talk about the second half holistically and then we can talk about the fourth quarter. CSG is expected to be slightly higher for the second half versus the first half. We plan to focus on execution, driving revenue and share gains while improving profitability. So continuing that focus.

We expect AI servers to be balanced between the first half and the second half. Jeff just alluded that we'll do more if we can, but that's what's implied in our guidance, with about \$10 billion of revenue with improved margin rates.

From a storage perspective, storage is expected to perform better sequentially in the second half, with more Dell IP as well as normal seasonal acceleration in the fourth quarter. That acceleration in the fourth quarter that storage weighting is what's driving a significant amount of that expected profitability that's implied in our fourth quarter guide.

Traditional servers are expected to grow in the second half. And of course, we expect our operating expenses to continue to come down as well. So net-net, we expect to be able to deliver more profitability in the second half, and you see that again weighted into the fourth quarter.

Wamsi Mohan - Bank of America - Analyst

Okay, thanks so much, Yvonne.

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

Thanks, Wamsi.

Operator

Erik Woodring, Morgan Stanley.

Erik Woodring - Morgan Stanley - Analyst

Hey guys, thanks so much for taking my question. I just wanted to, Jeff, maybe touch on the storage market. We heard from some of your peers last night about a strengthening data center monetization opportunity. Revenue was down 3% for you guys, and you're guiding that business flat.

Now I think, in 90 days, you expected to grow 3% plus for the year. So I'd love to just know from the Dell perspective, kind of what has changed in the storage market over the last 90 days to get a bit more cautious there. Thanks so much.

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

Sure. Erik, you correctly pointed out down 3% P&L growth. And we tried to describe what we saw was in large accounts, demand was a bit slower, particularly in month two and three of the quarter and particularly in the United States, North America.

We tend to look at this through the lens of some of the bright spots that we called out in our remarks, where PowerStore grew double digits. It's grown now six consecutive quarters, five of them double digits. And our entire All-flash storage portfolio grew double digits.

And when you look at where we landed in Q2, the guidance in – for Q3 would suggest we're doing better than normal sequential, which I think is an improvement. And the fact of the matter is, our Dell IP storage, we expect to outperform the marketplace.

So the market is growing, and we expect to outgrow that market in the second half. It's offset by HCI customers going through what I think is a rethink of their private cloud options. You might have noticed yesterday, we actually made an announcement around our Dell automation platform to help those HCI customers with an open disaggregated automated alternative.

So we're working through that headwind of HCI customers, that are in the portfolio, trying to determine their next path or the path going forward, while at the same time, our Dell IP portfolio continues to grow, it outperforms the market.

We're expanding margin in each of the categories. So we're very optimistic about our Dell IP portfolio and managing through customers' decision and future decision about where they're going with their private cloud deployment. I hope that helps.

Erik Woodring - Morgan Stanley - Analyst

Yes, super, super helpful. Thank you, Jeff.

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

You're welcome.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, Erik.

Operator

Ben Reitzes, Mellus Research.

Ben Reitzes - Melius Research LLC - Equity Analyst

Yeah, hey guys, thanks. I wanted to go back to sort of Wamsi's question, but more specifically around AI servers. Why will the margins improve? And what is the order of magnitude there? I think there's a perception that it's low single digits op margin.

And that it could have the potential eventually over time to get to a higher number than that. So what specifically is going on there? How high can it get by the fourth quarter or long term? And I know, Jeff, you've talked about an attach rate there. Is that the reason that the margins are going up? Thanks.

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

I think – thanks for the question. I think there are two things to consider. And Yvonne hit it, but I think it's worth making sure we communicate but business mix matters. And when you look at Q2, the AI server component was nearly half of the CSG – or excuse me, the ISG revenue. And that meant that the traditional server business and the storage business underperformed.

And what we're trying to call on our guidance is going to see a recovery in North America servers, which are profitable. And we're going to see improved margin performance in our storage business that I just reflected to.

That changes the ultimate business mix in the second half, which is why Yvonne talked about that as the improvement. And AI specifically, which is your question, Q2 is interesting. Mean I would call to your attention that we did add \$6.5 billion of revenue quarter-over-quarter, and nearly \$500 million of operating income quarter-over-quarter with that significant shipment that we had in AI.

As we said consistently, that's gross dollar accretive, rate dilutive. And I think those are examples of that. In our Q2 shipments, we shipped a lot of the early Blackwell wins. And as you might mention that I said last quarter, those were aggressive deals, very competitive deals, and they were shipped throughout the quarter, coupled with we had some expense that I think is one-time in nature, in our supply chain as we expedited materials to meet our customers' needs and demands and to reconfigure the supply chain with what was going on in our geopolitical environment.

We expect those margins to improve through some value engineering, scaling of the business and the expansion of our enterprise customer base. We had the best quarter we've had in AI with enterprise customers in Q2.

The number of customers grew, the largest dollar demand that we had to date in enterprise, and I think that bodes well for the future and particularly in enterprise where we have the opportunity to sell networking storage and services with AI factories.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Okay, thanks, Erik.

Erik Woodring - Morgan Stanley - Analyst

Thanks Jeff.

Operator

Vijay Rakesh, Mizuho.

Vijay Rakesh - Mizuho Securities USA LLC - Analyst

Yeah, hi, Jeff, and Yvonne. Jeff, just a quick question on the pipeline. Just wondering what the mix of some (inaudible) was. And then I know you talked about improving AI margins in the back half. Just wondering what would be the improvements there and the margin upside that you expect? Thanks.

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

Sure. As we look at the pipeline, again, I think it's important for us to make sure we communicate clearly our sovereign part of the pipeline and our enterprise part of the pipeline grew double digits and grew faster than the CSP portion of the pipeline.

That pipeline now has over 6,700 unique customers as opportunity for us. And the composition of that is predominantly Blackwell. Encouraging, we're seeing the new RTX 6000 in that portfolio, and we're seeing air and PCIe as a result of that in the pipeline, which are very good indicators of enterprise opportunity.

So that's the composition of it. It is a composition of CSG. From a customer point of view, plus enterprise plus sovereign, it's predominantly from a technology point of view, Blackwell, with a growing demand of PCIe options.

And then if I go back to your question about margins, it's what I tried to articulate earlier with Ben, we expect the one-time costs in our supply chain to reconfigure and to expedite materials not to be in place in the second half. We think there's some opportunity for us to continue to value engineer the scaling of the P&L.

And then lastly, the enterprise customers and shipping to enterprise customers and the opportunity to attach unstructured storage, networking and our professional services around that.

Vijay Rakesh - Mizuho Securities USA LLC - Analyst

Great, thank you.

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

Thanks, Vijay.

Operator

David Vogt, UBS.

David Vogt - UBS - Analyst

Thanks guys, thanks Jeff, thanks a lot. Jeff, maybe not to belabor to the point, but just for clarification. If we think about the mix in the October quarter to more proprietary Dell Storage and delivery in server, traditional server, should we expect to see the same level of profitability from those products?

Or should they expand relative to where you were last year, where it was more 3P technology within storage. And if that's the case and should we just think about maybe margins holistically in ISG still being down from last year because of the greater AI services within the ISG segment? Thanks.

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

I'll start and then Yvonne can come in and get specific with the details with the guide. As we've been moving towards more Dell IP, which is the strategy, those are more margin-rich storage offers than our partner IP. We continue to see our Dell IP portfolio grow.

And within that, we are actually working to improve and have made progress improving the margins of each one of our Dell IP storage products in our portfolio. And as I just mentioned, I think it was Eric's question about growing in storage, we expect our Dell IP storage portfolio to outperform the marketplace.

So I think that bodes very well for what we're doing in terms of margin and margin growth. The challenge we have is we didn't grow. It was unacceptable. We see that. We are working to remedy that. But that's an aggregate storage number, which, again, I think is partly explained by the fact that we have HCL customers working through their next decisions and next purchases and infrastructure.

Which is why, again, I'll come back in link to, it's very important as we look at a disaggregated architecture that's open, and now with automation capability that we've just provided customers, we're providing an alternative. I think that's a key element going forward.

Yvonne McGill - Dell Technologies Inc - Chief Financial Officer

And I'd add to that, our gross margin rate is certainly a function, and Jeff mentioned, it of our mix. We have – we called up the AI portion to \$20 billion. And we've seen – we've lowered our expectations for the core business for CSG, for traditional servers, and storage embedded within our second half guide.

The impact the input costs that Jeff is talking about will also have some offset in gross margin. But there's rate potential compression for the second half. We're still guiding strong EPS growth of 17%. So I feel we're going to navigate through the environment and deliver successfully.

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

Yeah. Maybe to put another level of inspection here. Is the AI revenue was 3 times the mix of the business than it was in the previous quarter, Q1 to Q2. As we've said, that has a dilutive effect. And our guide, you're going to see the percentage of our AI business be less, which means the traditional storage and Dell IP or traditional server and Dell IP storage part of the business will be a greater percentage, which is more profitable, leading to the more profitable second half.

Yvonne McGill - Dell Technologies Inc - Chief Financial Officer

Right. And the seasonality of storage in the fourth quarter. So very excited about that.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Okay, thanks, David.

David Vogt - UBS - Analyst

Thank you, guys.

Operator

Amit Daryanani, Evercore.

Amit Daryanani - Evercore ISI - Analyst

Good afternoon, everyone. I guess I just had a question on the fiscal '26 guide, the way you folks have raised it. You're raising the top line by 4 points or bottom line by about \$0.15. It sort of looks like \$4 billion more of revenues and about \$100 million, \$110 million more of net income.

And I'm sure there's a lot of moving parts over here, but it almost looks like AI server margins are in the 2%, 2.5% zone for you folks. But maybe just talk about why is the conversion margin so low for the incremental revenues that are coming into the model. And what are the other puts and takes around it, assuming AI margins are better than that 2.5% matter imply? Thank you.

Yvonne McGill - Dell Technologies Inc - Chief Financial Officer

So if I think about the guide that we have for the second half, certainly, the demand dynamics play a key role in that. So if I think about the traditional server, when I think about the AI mix, the biggest impact to the second half and the profitability and outcome is the seasonality within the ISG business and within storage.

And so when I think through how we're going to drive more profitability, I really do think it's holistic across the board, but it is weighted towards the standard seasonality in the fourth quarter from a storage standpoint. So that's what is embedded within the guide. That's what you can see. That's what we deliver historically, and we – we'll do that again this fiscal year.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thanks, Amit.

Operator

Michael Ng, Goldman Sachs.

Michael Ng - Goldman Sachs - Analyst

Hey, good afternoon, thanks for the question. Just within ISG, I was wondering if you could talk a little bit more about some of the key things that may have impacted the traditional server and storage performance in the quarter.

I was wondering if any changes in federal demand played an impact? And then sequentially, were there any notable margin changes that you would call out for traditional servers and storage. Thank you.

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

Mike, let me try to give some color to that. The slowness that we saw in North America in traditional servers in April that we commented on in Q1 continued into Q2. And our North America traditional server demand was challenged through the quarter.

We had demand growth in all other regions. But in North America, our most profitable region was challenged from a demand perspective, and we saw that again continue from what we encountered in April. Federal spending continues to be down. That had an impact on our overall demand for the quarter.

We continue to work on the opportunity of server consolidation that exists out there today. We saw a continued uplift in more cores, more memory, more SSDs. So the content of our servers is going up. ASPs continue to trend up. We do see this notion of server consolidation happening in the marketplace.

We're replacing old servers with more efficient new servers, for example, our 17G converts, old servers at 6:1 to 7:1 ratios depending on which priority we're looking at. We think the opportunity is still massive out there. 70% of our installed base is still running 14G older servers.

And we expect our traditional server business to grow in the second half, albeit a little bit muted from our expectations at the beginning of the year. In storage, it was what I tried to describe earlier is large accounts, particularly in North America, particularly in months two and three was slower than expected.

Again, our Dell IP portfolio continues to shine around our PowerStore. We're winning new customers. The mix of new customers and old customers or existing customers continues to bias towards new customers coming to the portfolio, which is encouraging. Our All-flash portfolio continues to grow significantly in double digits.

And again, we have this, if you want to call the headwind, it's just the reality of what we've been selling for years as it comes up for a refresh, where, again, our Dell IP portfolio expected to outperform the market, and we have customers in our HCI business that are being thoughtful about their next purchase decisions and how they want to build their private cloud.

And again, our offering there is a more open disaggregated architecture, our entire Dell IP storage portfolio was that and now bundled with an automation platform that makes it easy to scale and deploy infrastructure, systems and solutions.

Michael Ng - Goldman Sachs - Analyst

Thank you, Jeff.

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

Of course.

Operator

Simon Leopold, Raymond James.

Simon Leopold - Raymond James - Analyst

Thanks for taking the question. Jeff, earlier in the call, you alluded to progress and encouragement around enterprise. I'd like to see if you could double click on that vertical and offer us some quantification. And related to this, NVIDIA last night talked about improvement -- sequential

improvement in Hopper business for them. I'm just wondering whether that is related to enterprise traction or if you see that as something different. Thank you.

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

Yes, demand within the quarter for enterprise AI was up significantly. It was a very measurable part of our mix. It's the single largest number of customers that we sold to in a quarter. It is the most revenue we generated to enterprise customers in a quarter to date. We now have eight consecutive quarters of quarter-over-quarter growth of the buyer base.

The mix now is roughly 50% new customers and 50% returning customers. We're seeing that across a broad base of segments, whether it's tech firms, manufacturing firms, financial services firms, engineering firms, higher education, healthcare.

The number of TOCs are up. The number of TOCs converting to production is up. And we think these are great opportunities to build Dell AI factories for enterprise, which ultimately gives us an opportunity to sell the networking, storage, and professional services around that. And we're very encouraged about the momentum.

Customers are getting real value out of AI or they have deployed it into real difficult problems. There is a return on those investments, and then we see the dollars continuing to go. I would look at our own company as an example of getting a return on investment with investing in AI infrastructure. Does that help?

Simon Leopold - Raymond James - Analyst

It does. And any thoughts on why NVIDIA saw sequential growth in the Hopper business for them? Did you see that?

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

Well, recall, many enterprises are not ready for DLC. Don't have the increased power density that some of the advanced technologies have. So with Hopper, air, going into current data centers, the RTX 6000, as I mentioned, as an example, we saw a significant growth in that. Those are all indicators that enterprises are buying AI and deploying AI in their current infrastructure, which is very encouraging.

Simon Leopold - Raymond James - Analyst

Great. Thank you.

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

You're welcome.

Operator

Samik Chatterjee, JPMorgan.

Samik Chatterjee - JPMorgan Chase & Co - Analyst

Yeah, hi, thanks for taking my question. Jeff, maybe sticking with AI servers, I was curious if you can share how the backlog or the pipeline there has transitioned to GB300, what you're seeing from customers in terms of their mix of demand shifting to GB300 versus the GB200. And is that leading to some level of margin or pricing pressure on the older platforms in terms of just demand profile there? Thank you.

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

Our backlog is at \$11.7 billion, rich with all forms of Blackwell. Customers that started early deployment of the GB200 continue with those deployments. Customers are migrating to GB300. Without getting into the specific details of how much of each one of them, the backlog is primarily Blackwell. The pipeline is primarily Blackwell, all variants of Blackwell, P200, P300, GB200, GB300.

It depends on customer-specific needs, how they're deploying that. The parts are in full production and have wide-scale availability. We're shipping all variants to customers. We're excited about the technology. The transition continues to go well.

Our partnership with NVIDIA and our customers to get the racks ready or the nodes ready themselves, I think, is working incredibly well, which is enabling us to move the material through the factories very quickly, so the cycle time is very quick, very good, if you will.

Deployment to our customers is second to none. And the fact that it shows up, you can turn it on and it works and it's deployed at scale that we believe is a differentiator in the marketplace for us.

Samik Chatterjee - JPMorgan Chase & Co - Analyst

Thank you.

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

Of course.

Operator

Asiya Merchant, Citi.

Asiya Merchant - Citi - Analyst

Great, thanks for squeezing me in here. On the PC side, if I may. I think some of your peers have talked about better second half growth. I think you alluded to share gains and improving profitability here in the back half.

And so just help us understand what gives you the confidence in that as we kind of look to the back half. And then just at a high level, as people are thinking about calendar '26, should we expect PC momentum to sustain here? Or was there a lot of pull forward and refresh activity that happened in calendar '25, that would suppress growth in calendar '26? Thank you.

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

Maybe in reverse order. You have the Windows 10 end of life that is an event that is certainly an opportunity to refresh. The market continues to be large in that area. There's still many hundreds of millions of PCs that can't run Windows 11.

There's an opportunity for Windows 10 PCs that can run Windows 11 to continue to be upgraded. Our best indicator is about half of the installed base is now upgraded, which tells you about half of the installed base is not.

That's what's in front of us. We're 48 days away from the end of life period of Microsoft. It's highly unlikely the other half is going to be done in the next 48 days. So we have the opportunity to push through that. That likely spills into next year. How much? I don't know.

But it's why we believe the second half of the market continues to be a good PC market. And we have every intention to grow. We have every intention to outperform the marketplace and take sure. That's our goal. We have not done that consistently enough. That's problematic.

We are focused on doing so. I think we've leaned into the market as we need to, while understanding our operating range of 5% to 7% operating margins. And the new product that we launched this morning, I think, is indicative that we're playing to win and leaning in to do so.

The organization is focused on that. This business is hugely important to our company. It is, in many ways, it's a scale business. It is part of our end to end solution for our commercial customers, from small businesses to the largest businesses in the world.

It's a primary customer acquisition vehicle for us. And many customers experience our company through the PC business, they experience our brands, they experience their interaction with our company through our PC business. And that's why it's very important. We're focused on it.

I'm not happy with the share performance. We're going to turn that around, and we've reflected that in our guide where we believe our business will grow mid-single digits, and we'll improve our operating margins.

Asiya Merchant - Citi - Analyst

Thank you.

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

Yes.

Operator

Mehdi Hosseini, SIG.

Mehdi Hosseini - Susquehanna International Group - Analyst

Yes, thanks for taking my question. Just two quick follow-ups. In order to get to 7% year-over-year growth in operating profit and given your OpEx guide, gross margin would need to improve – corporate gross margin would need to improve by about 150, 160 basis points. And I'm just trying to understand if that's the case, what are the key drivers behind the gross margin improvement? And I have a follow-up.

Yvonne McGill - Dell Technologies Inc - Chief Financial Officer

Sure. So as I look at the second half and I've talked about it a bit, we have a different seasonality in the second half with a solid weighting of storage and lean in on storage and the ISG business in the fourth quarter.

And so as we look through that, and from a profitability standpoint for the second half, I see CSG is expected to do slightly better, second half versus first half and for all the reasons we've already talked about. I expect AI servers to be balanced.

And again, we're improving that margin rate as we've talked about. And then the storage mix. Storage is one of the biggest drivers, and Jeff's talked about it already. But not only the seasonality within storage, but the mix more towards our Dell IP drives more profitability for us, which we'll continue to benefit from.

Traditional servers, we're thinking will grow in the second half. And then we're working on other areas. We've called up – obviously, we've called up the guide to \$107 billion at the midpoint and called up profitability. So if I think through our – a lot of the driver of that because we called up five in AI servers.

A lot of the driver there is holistic profitability across the company, across all pieces of the portfolio or I wouldn't have been able to call up the operating income in addition to the margin. So we're focused on profitable growth and driving efficiency through the business.

Mehdi Hosseini - Susquehanna International Group - Analyst

I see. Thanks for the details, and a quick – thank you. And a quick follow-up for Jeff. This may have come up in the prior call. But I'm just looking at your revenue mix product versus services and services has remained around 20%, 25% of the total revenue, but with a significantly higher gross margin. Why not try to scale services as a way to expedite improvement in profitability?

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

We are trying to do that versus selling more PC, selling more servers, selling more storage, selling more AI. We look at the opportunity to attach all forms of services, whether it's ProSupport, ProSupport Plus, our professional services, our installation services, our deployment services driven by outperforming the market and growing. Growing is the best way to improve our contribution of services in our portfolio.

Mehdi Hosseini - Susquehanna International Group - Analyst

Thanks, Jeff.

Operator

Krish Sankar, TD Cowen.

Krish Sankar - TD Cowen - Analyst

Yeah, hi, thanks for taking my question. I kind of have a two-part question too. One is for Jeff, can you talk a little bit about the AI server mix. How much is liquid cool? What is air cool? How much is on-base CPU architecture? And how do you expect that to evolve over the next year and any implications to margins?

And along the same follow-up for Yvonne, congrats on raising the numbers, but it looks like your revenue raise is like about 4% compared to prior guide for full year, and EPS is only 1.5%. Why isn't the full year EPS higher? Thank you.

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

The backlog and looking at the five-quarter pipeline would be biased towards direct liquid cooling and our large-scale deployments of the GB200 and GB300 is the quick and accurate answer of what our backlog looks like. It's a mix of both technology as well as what is liquid cooled.

Yvonne McGill - Dell Technologies Inc - Chief Financial Officer

And to your question, from an overall standpoint, we've got additional \$5 billion in AI with EPS contributions that goes with it, of course, and about \$1 billion out of CSG traditional server storage that I've mentioned. So we're – we will be driving that growth that we've outlined with the profitability that we've outlined based on numerous drivers there, of which mix and efficiencies are leading the way.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

We'll go with one more question, please.

Operator

Steven Fox, Fox Advisors.

Steven Fox - Fox Advisors LLC - Analyst

Thanks. Just for my one question. I was hoping, Jeff, if you could look forward on your supply chain, both incoming and outgoing. You mentioned some expedites, deflationary pressures, moving capacity around how many of those dynamics to or how do those dynamics play out differently or the same in the rest of the fiscal year? Thanks.

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

Well, let me talk about the overall supply chain and then maybe specifically about AI. When I look at what's in front of us is we had a deflationary Q2 of all input costs. I expect that to flatten over to the second half of the year in both Q3 and Q4.

We believe we have managed through the complexities of tariffs quite well, and have not impacted our customers, we did not raise price. I think the agility and resilience of our supply chain continues to pay dividends.

And following the jurisdictions and the rules that we have to when it comes to the political environment today. When I look at AI specifically, I tried to mention, perhaps I wasn't clear that the cost that we incurred in Q2 to expedite material for our GB200 deployments and shipments and then the reconfiguring our supply chain to optimize that was a one-time cost in Q2 that I don't expect to incur in Q3 and in Q4.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Thank you.

Steven Fox - Fox Advisors LLC - Analyst

Great, thanks.

Paul Frantz - Dell Technologies Inc - Head of Investor Relations

Jeff, over to you to close this out.

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

Sure. Just want to thank everybody for joining us today. A few points as we wrap up. AI continues to accelerate, and our differentiated offering is resonating with our customers. With \$17.7 billion in AI orders in the first half of the year, we are delivering and innovating for the largest at scale AI clusters in the world, while scaling into AI factories for enterprises.

And we saw a very strong revenue and EPS growth, both up 19%, and we raised our full year revenue and EPS guidance, driving a second half that drives growth and improved profitability. Our focus continues to be on generating significant cash flow that enables meaningful shareholder return. I look forward to seeing many of you at our Security Analyst Meeting on October the 7th. Thanks for your time today.

Operator

Thank you. This concludes today's conference call.

We appreciate your participation.

You may now disconnect at this time.
