TRANSCRIPT

DELL – Q2 2027 Dell Technologies Inc Earnings Call

EVENT DATE/TIME September, 1 2026 9:30PM GMT

Operator: Please stand by. Good afternoon and welcome to the Fiscal Year 2027 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 the copyrighted property of Dell Technologies, Inc. Any rebroadcast of this information in whole or part without the prior written permission of Dell Technologies is prohibited. Following prepared remarks, we will conduct a question-and-answer session. If you have a question, simply press star, then one on your telephone keypad at any time during the presentation. I'd like to turn the call over to Paul Frantz, head of investor relations. Mr. Frantz, you may begin.

Paul Frantz: Thanks, everyone, for joining us. With me today are Jeff Clarke, David Kennedy, and Tyler Johnson. Our earnings materials are available on our 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. During this call, unless otherwise indicated, all references to financial measures refer to non-GAAP financial measures, including non-GAAP gross margin, operating expenses, operating income, net income, diluted earnings per share, free cash flow, and adjusted free cash flow. A reconciliation of these measures to their most directly comparable GAAP measures can be found in our web deck and our press release. Growth percentages refer to year over year change unless otherwise specified. Statements made during this call that relate to future results and events are forward looking statements based on current expectations. Actual results and events could differ materially from those projected due to a number of risks and uncertainties which are discussed in our web deck and our SEC filings. We assume no obligation to update our forward-looking statements. Now I'll turn it over to Jeff.

Jeff Clarke: Thanks, Paul, and thanks, everyone, for joining us. Another outstanding quarter. I am proud of how our team executed across the business, delivering record revenue and record earnings per share. Revenue was $47 billion, up 58%, and earnings per share was $7.04, up 203%. These results reflect the compounding benefits of our competitive advantages, the breadth of our portfolio, and the strength of our operating model. Our modernization efforts are driving greater efficiency and significant operating leverage, enabling us to grow earnings faster than revenue. Customers no longer see IT environment simply as cost centers, but as value drivers that enable growth, productivity and competitive advantage. As a result, they are expanding and reallocating budgets to support continued investment. This is creating opportunities across our portfolio, from infrastructure to client devices.

Our world class supply chain and ability to serve customers across their IT environments are helping us meet more of their needs and gain share. Our deployment and service capabilities are helping customers integrate solutions across their IT environments and capture more value quickly. The proof is in our results. Over the past 12 months, we have booked more than $130 billion in AI server orders. In just the past two quarters, we have generated almost as much revenue from traditional servers and networking as we have in any prior full year in company history. Storage returned to growth and share gain with strong demand for Dell IP storage products, and CSG revenue is growing at the fastest rate in five years. It is clear why demand for our solutions is exceeding available supply. Our results and guidance demonstrate the strength of our position as customers enter a new era of infrastructure modernization. Customers are modernizing their data centers for both AI and non-ai workloads, and the benefits are meaningful.

AI is an important catalyst, but the opportunity extends well beyond AI optimized infrastructure. Ai requires modern, disaggregated architectures that keep data accessible and in motion across compute, storage, and networking. It is also accelerating investment across traditional IT environments as customers seek greater performance, efficiency and resiliency. Our AI server momentum continues to accelerate. We booked $60.9 billion of AI orders in this quarter, the most in our history. We are also seeing AI related tailwinds in traditional servers and networking, along with early signs of increased storage demand as customers prepare, manage and protect growing volumes of data.

Deployment methods are evolving as well. On-prem and edge infrastructure offers attractive token economics for the right workloads while giving customers greater control over their data and intellectual property. Our portfolio of global reach and deep customer relationships position us to help customers design, deploy the right solutions for their performance, cost, and security requirements. Together, these trends are expanding our addressable market and driving demand across compute, networking storage, and PCs. This represents a significant long-term opportunity for us. It plays directly to our strengths and expands the value we can deliver across the entire IT environment.

Now on to the results. Starting with ISG, revenue increased 89% to a record $31.8 billion, with operating income of $4.8 billion and an operating income rate of 15%. In AI, demand continues to accelerate. In Q2, we booked a record $60.9 billion in AI orders and recognized $16.4 billion in AI server revenue. We exited the quarter with a record $95 billion of AI backlog, and our pipeline continued to grow sequentially and remains multiples of our backlog. Even after converting $131.7 billion into orders over the past 12 months. Demand is broadening across neoclouds, sovereigns and enterprise customers, and our customer count has surpassed 6,500. The scale and complexity of these deployments reinforce why customers choose us.

AI infrastructure requires much more than assembling and delivering components. These opportunities demand significant engineering, design and deployment expertise, with some engagements requiring upwards of 50 unique designs as customers optimize for workload performance, power, cooling and the data center environment. This complexity plays to our strength, our engineering capabilities, broad portfolio, global supply chain and ability to deploy and support infrastructure at scale globally differentiate us. Enables customers to move from design to production more quickly. We demonstrated those capabilities again by becoming the first to ship rack systems engineered on the NVIDIA Vera Rubin platform. The AI market is evolving rapidly, and we are focused on expanding our platforms and capabilities, solving increasingly complex customer challenges, and innovating across the infrastructure stack. With accelerating demand and a growing pipeline and differentiated capabilities, we are well positioned to capture the opportunity ahead.

Moving to traditional servers. Revenue was up 122% as demand remains exceptionally strong, supported by multiple vectors of growth. First, a majority of our growth is coming from existing customers as they continue to refresh and modernize their data centers to support traditional workloads. Heightened security and resiliency requirements are also creating incremental demand as customers modernize their infrastructure. Second, we are seeing a growing trend of customers that require meaningful CPU compute capacity to support AI and agentic workflows. These workloads are creating incremental demand for traditional servers.

We are executing very well against both opportunities and gaining share. Over the past two quarters, we have gained more than ten points of traditional server share, and we expect to gain share again this quarter with the majority of the installed base still on 14th generation or older servers. We see a significant and durable refresh opportunity ahead. The strength and breadth of demand, combined with our continued share gains, demonstrate the competitiveness of our portfolio and the consistency of our execution.

Turning to storage. Revenue is up 26% as strong demand for our IP portfolio translated into revenue growth and improved storage profitability. Dell IP delivered another record demand growth quarter, making this our sixth consecutive quarter of demand growth above market. Demand remains broad based; enterprises continue to modernize their storage environments as data growth increases the importance of keeping data available and secure. At the same time, we are beginning to see incremental demand from AI workloads, which require customers to prepare, manage and move increasingly large volumes of data.
We saw strong growth across PowerFlex, PowerStore, PowerProtect, and PowerVault, with PowerStore posting double digit demand growth for the ninth consecutive quarter. PowerScale and ObjectScale also drove another exceptional quarter in unstructured storage, which has now

grown at double digit or better for three consecutive quarters. Storage is becoming a more meaningful contributor to our growth and profitability. Dell IP continues to increase as a percentage of our storage mix, and margins continue to improve, supporting overall ISG profitability. Our share gains, expanding Dell IP mix and accelerating pace of product development give us confidence in the opportunity ahead.

Turning to CSG, revenue grew 20% with demand growth across all regions and verticals. Commercial revenue grew 22%, our eighth consecutive quarter of growth, with demand up for the 10th quarter. Large enterprise customers continue to refresh their PC install base, driving double digit growth across all regions. More cost sensitive customers are extending their upgrade cycles. This is increasing the number of older devices in the install base and expanding the long-term refresh opportunity for CSG. Consumer revenue was up 7%, the fourth consecutive quarter of demand growth. CSG profitability remained strong, benefiting from price discipline and greater scale.

In closing, we delivered record revenue and EPS with continued strong cash flow and record capital returned to shareholders. Our results reflect several reinforcing factors. First, infrastructure demand is growing structurally, driven by data center modernization, AI adoption and attractive economics of deploying workloads on-prem. Second, our broad-based portfolio across AI infrastructure, traditional servers and networking, storage and PCs enable us to serve the full range of our customers' needs. And lastly, we delivered value at scale through our engineering and deployment expertise supply chain scale and fast disciplined operating model.

Our full year operating expense rate guidance of approximately 8% of revenue is the lowest in our company's 42-year history. Demonstrates the operating leverage this model can deliver. These advantages reinforce one another. They are driving growth, share gains, profitability, and cash generation. By creating more value for our customers, we compound our advantages and create durable cash flow and long-term value for our shareholders. I am proud of our team's performance. We enter the second half with strong momentum and confidence in our position. With that, let me turn it over to David to walk through the financials and our outlook.

David Kennedy: Thanks, Jeff. We delivered another record quarter, capping a very strong first half of the year. The team executed exceptionally well, driving record revenue, record EPS, and record shareholder returns. Total revenue was up 58% to $47 billion. Gross margin dollars grew 78% to $9.9 billion. Gross margin rate was 21.1%, driven by an improvement in ISG margin rate and a higher mix of ISG revenue. Operating expenses were up 22% to $4 billion, primarily from variable compensation tied to our outperformance. Building on last quarter, we continued to drive significant scale in the P&L, with OpEx down 250 basis points to 8.5% of revenue. Operating income grew 160% to $5.9 billion, or 12.6% of revenue, driven by higher revenue scale and price discipline across servers, storage and CSG. Net income was up 189% to $4.6 billion, primarily driven by strong operating income. Diluted EPS increased 203% to $7.04, a record.

Moving to ISG. ISG delivered record revenue of $31.8 billion, up 89%, marking the 10th consecutive quarter of double digit or better revenue growth. AI server momentum accelerated and we set records across the board, including $60.9 billion in orders, $16.4 billion in revenue and $95 billion in ending backlog. Traditional server and networking revenue was $10.5 billion, up 122% as demand continued to outpace supply. Storage revenue was $4.9 billion, up 26%, with strong demand across the Dell IP portfolio driving revenue growth and significant margin contribution. Dell IP storage demand has grown above market for six consecutive quarters. Unstructured storage remained one of our fastest growing solutions, with broader strength across the rest of the portfolio. ISG operating income was a record $4.8 billion, up 225%, marking the ninth consecutive quarter of double digit or better growth, primarily driven by higher revenue across the business. Operating margin was 15%, up 620 basis points.

Looking at the key drivers of margin performance, a number of factors came together and went our way this quarter. The demand environment was strong; mix and rates were favorable and the team executed with discipline. While we would not expect every benefit to continue at this level, the quarter also reflects meaningful structural improvements in the business, which is reflected in our second half guidance.

Looking more closely at the drivers, first, we are realizing the benefits of our multi-year modernization journey. That work is driving greater efficiency and strong operating leverage, resulting in significant scale. Second, storage profitability was up with a higher mix of Dell IP and rate expansion across the solutions. And third, we maintain strong operational and price discipline in a dynamic environment, reflecting our team's strong execution and continued focus on supporting our customers.

Turning to CSG. CSG revenue was up 20% to $15 billion. Commercial revenue grew for the eighth consecutive quarter, up 22% to $13.2 billion, and consumer revenue increased 7% to $1.8 billion. CSG operating income was $1.1 billion, or 7.6% of revenue, driven by pricing discipline and the benefits of scale in the P&L. We will continue to balance customer demand with availability of supply to drive profitable share gain. CSG remains an integral part of the business. It provides scale across our supply chain and manufacturing, completes our end-to-end portfolio with the essential productivity device, and is our most capital efficient business. Together, these strengths make CSG a significant source of cash generation and helps fund growth across Dell and capital returns to our shareholders.

Moving to cash and the balance sheet, we delivered another strong cash quarter with cash flow from operations of $2.2 billion and adjusted free cash flow of $8.1 billion. This was primarily driven by sequential revenue growth and higher profitability. We returned an all-time record $4.3 billion to shareholders this quarter, including repurchasing 9.5 million shares at an average price of $401 per share and paying a dividend of approximately $0.63 per share. This acceleration in shareholder return, up $2.2 billion quarter on quarter, reflects our agility and commitment to capital deployment as we generate more significant adjusted free cash flow, as well as our confidence in our long-term value creation. We ended the quarter with $14.2 billion in cash and investments of $0.2 billion sequentially, and our core leverage ratio is at 0.8x. Overall, our strong cash generation and healthy balance sheet, further validated by positive credit rating actions during the quarter, provides significant flexibility to invest in the business and continue returning capital to shareholders.

Turning to guidance. We've had a strong first half of the year and we expect the second half to be stronger. The momentum we've seen continues and we are raising our expectations across every line of business. Our second half gross margin rate outlook has improved over the past 90 days, and we continue to drive significant operating leverage and scale. For Q3, we expect revenue to be $49 billion at the midpoint, up roughly 80% year on year. We expect ISG to grow roughly 145%, supported by $19 billion in AI server revenue.

CSG revenue is expected to be up roughly 15%. Operating expenses are expected to be down low single digits sequentially. Operating income is expected to grow roughly 120%. We expect ISG operating income rate to be up just over a point year over year, even as AI server revenue more than tripled year over year. We expect CSG operating income rate to moderate to roughly 6% as we balance demand, share and profitability. We anticipate a diluted share count of approximately 651 million shares. Diluted non-GAAP earnings per share is expected to be $6.50, up over 150% at the midpoint. For the full year, we are raising our revenue guide by $25 billion to $192 billion at the midpoint, up roughly 70%, with diluted non-GAAP EPS of $25.50, up approximately 150%.

We expect ISG to grow roughly 120%, driven by AI server revenue, up 3x year over year to $74 billion. We expect traditional servers to grow just over 100% storage up in the mid-teens and CSG revenue to grow in the mid-teens. Excluding the mix impact of AI servers, gross margin rate are up year over year. Our modernization efforts are paying off, simplifying, standardizing, automating and enhancing our operating model with AI, delivering significant operating leverage with operating expenses to be approximately 8% of revenue, the lowest level in the company's

42-year history. With gross margin improvement and the benefits of significant scale, operating income is expected to grow approximately 120%, with over two points of rate improvement year over year. I&O is expected to be between $1.4 and $1.5 billion. Diluted non-GAAP earnings per share is expected to be $25.50, up approximately 150% at the midpoint.

In closing, we have delivered another exceptional quarter, capping a record first half of the year. Over the past two quarters, revenue was $90.8 billion, up 71%. EPS grew 208% to $11.90. We generated record cash flow from operations of $6.3 billion and returned an all-time record $6.3 billion to shareholders. The team executed exceptionally well across the business. The second quarter provided further evidence that AI momentum is accelerating, with $60.9 billion in orders, $16.4 billion in revenue and a backlog approaching $100 billion. At the same time, traditional servers, storage and CSG all contributed, reinforcing the breadth and balance of our portfolio.

Beyond the numbers, I would highlight the operating discipline. The modernization work we've invested in over several years is showing up in scale, in margin structure and in our ability to execute in a dynamic supply environment. We're entering the second half from a position of strength and will continue to balance growth with discipline to drive long term shareholder value. You are seeing the compounding benefits of our durable competitive advantages, differentiated operating model and operational discipline. We're excited about the second half and confident in our long-term value creation. Thank you to the team for their execution and thank you all for your time today. Now I'll turn it back to Paul to begin Q&A.

Paul Frantz: Thanks, David. And 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 with the first question.

Operator: Thank you. Our first question will come from Amit Daryanani with Evercore.

Amit Daryanani: Yep. Thanks a lot. Good afternoon, everyone, and congrats on a really nice print here. I want to spend some time on the non-AI part of ISG. And if I look at a traditional server growth of 122% was actually faster than AI compute, and storage grew 26% as well. I think a worry folks will have is, is this driven by a combination of pricing and prebuys rather than real demand? So I don't know if you can spend some time just talking about what do you think is driving this demand? And if there's a way to think about pricing versus demand versus share gains, and really any color on what workloads or use cases are you seeing this infrastructure going into and the durability of it would be helpful. Thank you.

Jeff Clarke: Sure. Let me try a little bit. So if you look at traditional servers and what we're seeing, which is the vast majority of the growth that we saw in the quarter, it's a consistent theme that I think we talked about last quarter. One, there's a modernization in the data center. That modernization continues to drive consolidation. It is increasing space, driving power efficiency and cooling, and it's obviously driving demand. And demand for new servers that have more cores, new servers that have more DRAM, and new servers that have more storage in them as we consolidate an aged install base.

Secondly, that's probably the next big opportunity for us. As much as we've modernized, and to give you a sense that it's not an end near or it's a one-time thing, we still have 1.2 million assets that are 14G or older in the install base. They have to be upgraded. They're going to have to be consolidated with new technology, whether it's our 17G and the consolidation ratios or six to eight to one, or our new 18G that will begin shipping next month, where we see consolidation rates in the 12 to 14 servers per new 18G server. That is going to happen, and a forcing function is going to be the security environment that we live in today. So we think about what's happening in the world of security and driving increased resilience and new requirements, like post-quantum cryptography coming online. Old infrastructure has to be updated. And then increasingly, we're seeing enterprises drive AI workloads, specifically agentic workloads. I know your question was specifically the non-ones, but it's complemented by growth there. In storage, we see a very similar dynamic. We have the dynamic of our products are very competitive in the marketplace. Data continues to grow. So regardless of the inflationary environment that exists, more data is being created on the planet at the edge and data centers in the cloud. And that data has to be stored. It has to be encrypted and protected. And those are the opportunities that we see, which is why we believe our Dell IP portfolio has a pretty significant tailwind.

Think about it. I think if we blend Q1 and Q2 together, we grew 17% in the first half of the year. We continue to see our Dell IP storage growing ahead of the market for six consecutive quarters on a demand basis. We could run off a bunch of fun numbers. PowerStore has now grown ten consecutive quarters in a row. We have PowerScale five quarters in a row. ObjectScale four quarters in a row. Data Domain three quarters in a row. Our all flash array have grown now ten quarters in a row, so there is inherent demand. Our products are more competitive and we're seeing that play out in the marketplace from the largest enterprise customers down to small and medium sized businesses. And then there, there's also the opportunity to grow with AI, which is driven by agents and KV cache and new techniques in the AI world. I hope that helps.

David Kennedy: Maybe to add, Jeff, I think it's part of the durability of that growth and demand. Again, we see as part of our guide our second half growth rates, maintaining what you've seen in the first half. So Jeff mentioned the 17% growth in storage. Pretty similar mid-teens for the second half. We continue to guide to traditional server growing triple digits again for the second half as we drive that through. So we continue to see pipelines build. We continue to see the use cases that Jeff mentioned, and it all points to a more broad based, more durable ecosystem.

Paul Frantz: Thanks, Amit.

Operator: And the next question will come from Ben Reitzes with Melius Research.

Ben Reitzes: Hey, guys. Thanks, and I'll echo pretty impressive quarter and guide there. I wanted to ask about a little longer term. Your partner in AI servers talked about growing 70% next year in overall revenue. You guys are growing faster than that. Your backlog just surged. I was - and you also have these CPU racks that are new adding to traditional servers. So would you be willing to - should you grow kind of in line with NVIDIA for next year as you guys are really part of the ACIE segment they have? Do you see that kind of growth rate in your future or anything you want to kind of say about your long-term growth rate, given it's so much better than expected? Would be appreciated. Thanks.

David Kennedy: Thanks, Ben. Look, I think if you anchor in, in our second half trajectory, building on the last question, you can see, we like the position in relation to the durability that we see in the demand. We see it across the portfolio, and that's giving us tremendous leverage. As we continue to grow that scale that we get in the P&L, again, offers us the opportunity to continue to find scale and growth in the business. And the second half growth, which is 68%, is pretty much a mirror image to the first half, 71%. And it's obvious we're seeing signs where the data center is turning in from this cost center approach to a value creator, and the ecosystem and the enterprise customers that we're seeing are starting to embrace that. There's lots of complexity in execution. I think right now, really keen to execute a strong second half, continue that great momentum as we go through the second half of the year. I think we'll be in a great position at that point, and we'll continue to look for the growth going forward.

Jeff Clarke: And then maybe some more context around that. Our five-quarter pipeline grew sequentially. That's after booking $131.7 billion of orders over the past four quarters. I think that gives you a sense of what's happening today. And then if I look at the longer-term trends, I know you're a believer of this, but as we see it, agentic demand is reshaping the data center in underlying infrastructure. Inferences past training, and it's pure demand in our industry. We think the tokens that inference drives is going to grow 87 times to 3,600 quadrillion tokens by 2030. Training demand grows 5x to 850 Zettaflops by 2030. Enterprise agentic is expected to be the single largest workload by 2028. We're expecting AI to be 75% of all data center demand by

2030, adding 200GW of power over that same time frame, and half of that, we believe, is right in our sweet spot with our customers, the neocloud, sovereigns and enterprises.

And if you look at that math, we think the opportunity in front of us is more than $1 trillion over that time frame. And we believe we're well positioned. We believe that our model is differentiated, that our engineering is differentiating ourselves with every customer that we interact with. The scale of our deployment capabilities is unmatched globally. We believe what we're doing on the support side is equally important, helping customers ramp getting to that first token faster than anyone else and then keeping it running. And then the DFS component that we have to help customers in that bridge point from an order to that first token, is something that we believe is differentiating us, and we're going to continue to focus on that. And then if you believe that demand is there, it drives more servers in the agentic workload and it drives more data around that agentic workload, growing each of those areas for us as well.

Paul Frantz: Thanks, Ben.

Operator: And our next question will come from Mark Newman with Bernstein.

Mark Newman: Thanks very much. Congrats again on the fantastic numbers. A few more details on the huge strength you're seeing in both traditional and AI servers. First of all, for traditional servers, this has been traditionally almost all enterprise customers. And I believe you're lumping in these CPU racks that are agentic AI servers that are CPU racks in there, I believe. Is this traditional server category still almost all enterprise or are you seeing a portion of that from say neoclouds or Tier-2 CSPs? And then similarly for the AI server customer mix, both revenue and orders, I know a majority in the past has been neoclouds or Tier-2 CSPs. Is that still the same? I wondered if you could give us any hints in terms of the relative growth rate between enterprise versus other larger customers in the AI server mix. Because previously you said enterprise had been growing faster.

And I just wondered if that is still the case given the huge step up, particularly in the orders. Thanks very much.

Jeff Clarke: You bet, Mark. Traditional server, you had the 122% growth. It's primarily our historical enterprise customers. I'd stress demand outstrips supply. Demand was even greater than the results that we published there. We are supply constrained, but demand is from our traditional enterprise customers. That's where the vast majority of the workloads are. That's where the modernization is occurring. That's where the aged install base is. That's where the heightened awareness around security and resiliency has been driving demand. I introduced last quarter that we were beginning to see an AI servers. And when I talked about that and would be the same that happened this past quarter, that there are neoclouds buying that. Some of our high frequency trader customers are buying those types of servers, as well as very advanced in their AI deployments, our largest and most sophisticated enterprise customers. So vast majority of that 122% growth are traditional customers across all segments, all GEOs. AI servers are beginning to show up with that set of customers, which is exciting to see that grew quarter over quarter. It grew across neoclouds. It grew across our HFT customers as well as our enterprise customers. So that's exciting to see.

And then the mix inside our traditional AI business is exciting. And something that we've talked about, and I think we mentioned in our remarks, we now have more than 6,500 customers buying Dell AI factory. 3,300 of them have happened in the last three quarters. It took us eight quarters to get to the first 3,200. That acceleration is enterprise. Enterprise customers grew quarter over quarter year over year. Repeat buyers grew quarter over quarter and year over year. Enterprise revenue grew quarter over quarter and year over year, and the pipeline of enterprise customers grew sequentially as well. So we are seeing more enterprise customers. The mix didn't necessarily change because we are still winning on the sovereign side as well as the large neocloud side. But the momentum with enterprise is best measured by number of customers. The number of customers that are buying repeatedly is all up and the indicators are strong. And they tend to buy more storage, and they tend to buy more networking when they engage with us. A more complete solution. I hope that helped.

Paul Frantz: Thanks, Mark.

Mark Newman: Yeah. Thanks so much.

Operator: And we'll take a question from Katherine Murphy with Goldman Sachs.

Katherine Murphy: Thank you very much. To follow up on that last point, you talked about how the strength in this core enterprise customer base is driving strong pull through of other types of products, whether it be networking, storage or PCs. Can you help us think about how that informed some of the margin outperformance in the quarter, both on the storage side and as we think about PCs, and if this is going to drive a structurally higher margin framework for both of these segments as we look forward into the future, when enterprise represents a bigger share of your AI server engagements. Thank you.

Jeff Clarke: Sure. Let me try to walk through that. And David certainly will help me here. But the single biggest lever of the operating margin improvement in the company is scale. Operating leverage are the dividend. We are reaping dividends from the investments that we've made internally in AI, internally in modernization of the company, and it's allowing us to grow without significant investment going forward. Now, clearly, David mentioned the variable cost component, the variable compensation component in our cost profile. But at a core spend rate, we're seeing tremendous leverage. When I think about the portfolio, the single biggest contributor to the portfolio and our operating margin improvement, and particularly in ISG and storage, and specifically Dell IP storage.

We are still transitioning from a partner IP mix to a Dell IP mix. We're continuing to gain momentum there. That momentum drives incremental revenue dollars at a higher margin rate, which drives incremental margin dollars. That is the single biggest contributor outside of operating leverage in the portfolio. And we've seen expansion of our Dell IP margins because of mix selling higher end products or capable products. You take our Power Edge Elite with our six to one data reduction rate, the best in the industry, driving tremendous value for our customers. The same we see in a data domain product as well as our unstructured products.

So because of their performance, their capabilities, we're extracting more value from them. And clearly, there's an inflation component of this. They cost more because of the cost basis of NAND, in particular with storage products. But that's what's driving the improvement in our business. If you think about PCs, the single biggest improvement of the operating margins over the past two quarters has been operating leverage. And we see that continuing with our guidance of 8% OpEx for the balance of the year. David, anything you would add?

David Kennedy: Yeah. I guess maybe just to punch through some of the storage commentary. I mean, we're in the guide today, adding over $2.5 billion of storage revenue year on year to the P&L. That's tremendous margin opportunity, particularly as this Dell IP, and allows us to think about our margin rates from an enhancement perspective. Then on the CSG side, we're guiding to six points of operating income in Q3 and into Q4. Ultimately, that's roughly the midpoint of our range that we've always had from a long-term value creation framework perspective. And we'll obviously continue to price discover what is a competitive market likely down in units in the second half of the year. So some extra color of commentary there. But ultimately, it's scale and then storage mix as part of the value creation.

Katherine Murphy: Thank you both very much.

Operator: And our next question will come from Wamsi Mohan with Bank of America.

Wamsi Mohan: Hi. Yes. Thank you so much. Jeff, maybe it'd be helpful if you could slice this a slightly different way in terms of what you're seeing from customer purchasing behavior, particularly in the enterprise. I was wondering how much demand is actually being deferred because of inability to flex budget dollars high enough to keep up with the price increases. So if someone needed 100 servers, are they buying 50 today? And 50 are sort of hitting your backlog, which will be fulfilled next year, hopefully. And secondarily, your financing receivables ticked up materially, any color you could share over there. Thank you.

Jeff Clarke: Let me start with the first one. David can help and then head into the second part of your question. I mean, it's a tale of multiple factors. You have companies or customers in the public sector that operate in fixed budgets on annual cycles. They tend to operate in the very way you asked the question, if they have $1,000 or $100,000 or $1 million to spend, they spend that, and they will buy as much as they possibly can with that. The same is true more of the small and medium sized businesses that have less of a forecasting cycle of what their business may look like multiple years out. So they're more short term in their buying behaviors and buy that way.

And then you have larger customers globally that are investing in infrastructure. I think I made note of that in our comments, that we are seeing customers investing more than they plan to in infrastructure, modernizing ahead, investing in AI ahead of their plans. And we see that from large corporations to large enterprise to large multinational corporations across the globe. And that's been a big driver of demand. Those customers would prefer to have product now if we had the supply. We are, again, supply constrained in the sense of what we can build in any given quarter. They're putting off that based on our availability, but rest - I mean, at least from what I see, the order book, many would prefer to have the product sooner. And we are working through in this demand environment that's well ahead of supply helping customers manage.

Because of the environment, they are placing their orders further in advance to ensure they have access to that supply. I believe that's something we talked about last quarter. That behavior continues. Large, sophisticated customers are acting first and foremost, ensuring they have access to supply and giving us their view of demand with collaborative planning tools across our two organizations to get a view of their needs further into the future. That is probably a new phenomenon that's happened in this demand environment today with the constrained supply.

David Kennedy: Maybe if I touch on the cash flow and receivables element one. I think, look, firstly, you can see the power of our model in full flight here. I think as you accelerate revenues in the business, it allows us to grow cash flow. And given our cash conversion cycle, it ultimately enables us to reward our shareholders with expanded returns. Look, in Q2, we oversaw a $2.2 billion quarter on quarter increase on a $1.6 billion baseline to drive over $3.9 billion of share repurchase. It's almost two x any previous spend that we've done in our history. And I think it highlights two things. One, just the agility and nimbleness to execute in the market so quickly, but also two, I think an evidence-based commitment to our shareholder return strategy.

And as we continue to grow, our DFS capability is going to remain one of our differentiators there. You won't see any change in overall diligence or posture in relation to that. I think that our involvement will continue to be selective. Is primarily focused on short term financing and offerings. Jeff outlined that earlier, and I think we'll observe that in parallel to many other long term financing offerings available in the market. I think in terms of the increase, I think it's simply a factor of the growing business. The growth in financing receivables is effectively driven by the growth in the overall business, and it's anchored obviously in the expansion of AI. I think we're net income to adjusted free cash flow over one times. I think we're very comfortable with our capital and liquidity position and in strong health here as we exit the quarter.

Wamsi Mohan: Thank you so much.

Paul Frantz: Thanks, Wamsi.

Operator: And we'll take a question from Erik Woodring with Morgan Stanley.

Erik Woodring: Awesome, guys. Thank you for taking my question. Jeff, I think you'd have to go back to the quarter of the EMC acquisition to find a quarter where Dell storage grew as fast as it did. So a big congrats there. I realize pricing is a clear tailwind in storage, but for a long time we've been talking about this kind of $2 to $3 storage attach opportunity with servers, with AI servers. And I'm just wondering from your perspective, if we are starting to see this kind of storage attached story materialize, how long could that runway be based on what you hear from your customers, what you see in your pipeline? Just would love to understand how that relationship is emerging as we look at storage. Obviously crushing it this quarter. Thanks so much.

Jeff Clarke: You bet. Look, Erik, I think I'll start at the simple macro point of view. There's more data and there's more data being created. And as a result of agents and what we're doing in AI, there's even more data being created. I suspect, but these agents, when used, are creating files. They're creating logs, they're creating traces of the work that they do. That work has to be retained. Depending on what type of customer you are, there's compliance and regulatory requirements about how long that's got to be retained and what the protection policies are with that.

So you have another new source of growth for storage. You see the same happening with KV cache and how it's being used and driving more efficient inference. So we see multiple new lines or new paths for storage growth in our businesses. If we think about this across agentic workloads, as we head towards physical AI and what's going to happen in manufacturing and IoT sensors and robotics, which drive tremendous amount of multimodal unstructured data. Arthur likes to call it unstructured repositories. There's a lot of structured data and databases. The growth of that is immense, and we actually see it accelerating, not slowing down. And that bodes well for someone that's in the storage business, which we absolutely are.

And equally important in the data business. And how do we start helping customers with forms of data management? We talk about this internally around creating a data semantic layer, a layer of intelligence that helps make something of all of that data to feed the AI engines, to make sure that they can actually produce something even more worthwhile, to help the agents be more efficient, et cetera. To help training that virtuous cycle, we believe, is just starting. And as we understand it today, we're very optimistic about the growth of storage going forward in the AI world. And we're positioned quite well across all of our storage assets. We protect data, we store all forms of data, and as we build more of our data automation platform, we think about our data management work, I think we have a huge opportunity to grow and to be even more important to our customers as their data needs grow.

Paul Frantz: Thanks, Erik.

Operator: And our next question will come from Asiya Merchant with Citi.

Asiya Merchant: Great. Thanks for taking my question and great results here. Can I just ask a little bit about supply? Jeff, I know you mentioned supply constraints. Maybe if you can just help us understand where the supply constraints - if anything's changed from the last quarter. Clearly, some of the component makers are talking about supply agreements that have been signed. How do you think about your supply going ahead and what we should think about where some of the incremental supply constraints are, perhaps relative to last quarter in order to meet the demand durability that you're talking about even going into next year? Thank you.

Jeff Clarke: You betcha. How I think about supply. As I'm often reminded by our sales force, it's not enough. So we are doing everything we can to get more supply. In today's environment, that's a very difficult task. What we've been doing is, I think, optimizing the bits and bytes that we have coming in, whether that be with configuration, that be building match sets to maximize the output of the corporation out of the factories. Our ability to increase guidance by the $25 billion is a direct reflection of our ability to optimize what's coming in, shaping demand, planning it accordingly and getting it out the door.

One of the things that we did earlier this year is we saw the PC market showing signs of softening. In the second half we optimized the bits and bytes we have towards the infrastructure business. There's a lead time associated with that. We're working through that lead time, which is part of why the second half looks a little better. We've been able to realize greater shipments as a result of that. The constraints remain the same. DRAM, DRAM, DRAM followed by NAND, NAND, NAND. We have spotty CPU shortages. There are shortages with disk drives.

If you go further down in the supply chain, just about every product going through a leading node is constrained. Mature nodes that are building MOSFETs, power ICs, microcontrollers. Drivers are constrained. There's shortages of ABF Substrate, Tea Glass, all of which we monitor. There are shortages in optical. The AI supply chain is working red lines all out to build CDUs power racks. Welcome to the life of a supply chain person at Dell. This is what we do, chasing parts. We love it. Trying to optimize the outcomes for the company. I think we've done largely a good job of that with the second half guide up, and we'll continue to focus on trying to get more supply and take the supply we have and optimize the output.

Paul Frantz: Thanks, Asiya.

Operator: And the next question will come from Aaron Rakers with Wells Fargo.

Michael Tsvetanov: Hi, guys. This is Michael Tsvetanov on behalf of Aaron. Thanks so much for letting me ask a question. I wanted to ask on the storage business, obviously very strong within that you mentioned several solidly performing Dell IP portfolio products. One of which I wanted to ask about is Lightning. How is that contributing at this point and kind of what level of attack are you seeing to those cloud AI server deals?

Jeff Clarke: Well, Lightning, our parallel file system. Oh, there's an echo. Sorry. Parallel file system designed for native AI use cases. We continue to have the product out in the field. We continue to see interest. It's still a relatively new product. It's in beta at several customers. We're in runoffs against other competitors with the product. That will continue. And as it builds momentum, I'm certain we'll give you an update in the future. But that's where Lightning is at the moment.

Paul Frantz: Thank you.

Michael Tsvetanov: Thank you.

Operator: And our next question will come from Joseph Cardoso with J.P. Morgan.

Joseph Cardoso: Hi, guys, and congrats on the results here. And thanks for the question. Maybe can you guys - and I know you guys kind of talked about the traditional business here in length, but maybe just curious if we break down the growth that you're seeing on the traditional server and storage side between volume and pricing, relative to your earlier view, how much of the upside is coming from each of those vectors? And maybe more importantly, as you think about going forward in the momentum you're seeing in the business, how are you thinking about headroom for customers to keep on digesting these higher prices? And are you and your customer discussions? Are you starting to see any pushback there? Thank you.

Jeff Clarke: Parsing servers and storage by revenue and growth. Let me try. So if I look at servers and what we're seeing in traditional servers, we're seeing again this notion of modernization that's driving higher core count, more DRAM and more storage. Those products are - those configurations are part of this modernization or consolidation. And they continue to grow rapidly. They cost more than they did last quarter and the quarter before and the quarter before. So there's a notion of inflation inside our growth. But the underlying demand for the technology is significant. I think about the new use cases. That's all new use cases, all new growth, which is being driven by agentic AI essentially running the harness, if that makes sense.

And we continue to be optimistic about the prospects. Again, demand outran supply last quarter. Demand outran supply this quarter. The pipeline remains robust. David just gave an update on guidance of the server business, which is very healthy. And clearly, there's a component of that driven by the price increases as our input costs continue to go up. Storage is a very similar story, as I think I mentioned to one of the earlier questions. As we see a ramp down of our partner IP portfolio, it's being offset by more units in our Dell IP portfolio that come with higher revenue and higher margin rates.

We're seeing a greater use of our storage products in AI applications, which is good to see. Most notably with our unstructured products, which had unprecedented growth again, but I rattled off a bunch of numbers earlier about every category of our traditional or core Dell IP portfolio, growing multiple quarters now. The Dell IP stack has grown six consecutive quarters now ahead of the marketplace. We expect to take share again. And clearly some of that is uplifted by the increased cost of the underlying material. Our software defined products are doing well in the storage portfolio, which is incremental business for us. So I hope that gave some color.

Paul Frantz: Thanks. And we'll take one more question before we go to a close.

Operator: And that question will come from David Vogt with UBS.

David Vogt: Great. Thanks, guys, for squeezing me in. Maybe for Jeff and David, can you help us understand sort of the long term margin differentials as customers modernize to next gen servers off of older generation servers like 14 on the way to like 17G, 18G, and how much of the margin uplift that you're seeing in ISG comes from a like for like margin lift as we modernize data centers versus sort of your efficiency improvements and scale economics that you're seeing just from more volume going through the supply chain. Thanks.

David Kennedy: Yeah. I mean, if you look at our Q2 results here, ISG up at 15 points, obviously tremendous performance. Jeff outlined it earlier, the number one driver here is a scale conversation given the growth that we're seeing in accelerated growth that we're seeing. That for the ISG business was a driver of just over 400 basis points. For the full year guide, it's worth over 650 basis points. So you see the leverage that we can adopt into the ecosystem. Outside of that, you then as you do your storage growth. And again, as we drive that 13% guide - our 15% guide, excuse me, for the full year, that $2.5 billion of incremental storage is a huge drag in terms of revenue dollars that we push through.

As you look at our guide for the second half of the year, then for ISG, you'll see it's up over a point in the second half, and you'll see it grow from Q3 to Q4 also, even with the expansion of AI, which is over 3x growth year on year at a $74 billion guide. So all of that's kind of contributing to a robust portfolio. And then across the rest of the portfolio, it's really about mix, product mix, geo mix, and just traditional execution, pricing discipline and operational rigor across our supply chain engineering and sales teams.

Paul Frantz: All right. We'll move it over to Jeff to close this out.

Jeff Clarke: Sure. Thanks, Paul. Thanks, everyone, for joining us today. Our advantages are compounding. Our addressable opportunity is expanding. And our differentiated operating model is delivering significant leverage with our full year OpEx rate at a 42-year low. We raised our full year guide by $25 billion to $192 billion, with $25.50 of EPS. We are optimistic about a stronger second half and the momentum we carry into next year. Thanks, everyone, for your time today.

Operator: Thank you. That does conclude today's conference. We do thank you for your participation and have an excellent day.