
Dell Q2 FY2025 Data Center Earnings

STEVE MCDOWELL, CHIEF ANALYST
9/3/24

CONTEXT

Dell Technologies' [latest earnings report](#) paints a picture of a company amid a transformative shift, fueled by increasing demand for AI-driven solutions. In its second quarter of fiscal 2025, Dell delivered strong revenue growth, underscored by the rapid expansion of its Infrastructure Solutions Group (ISG) and a notable surge in AI server sales.

The company's financial results also reveal the inherent challenges of balancing growth with profitability in a highly competitive and cost-intensive market, where AI-driven data center economics look different from Dell's more traditional data center business.

FINANCIAL PERFORMANCE

Dell Technologies delivered robust financial results in Q2, reflecting its strategic focus on AI and infrastructure solutions.

Q2 Highlights

Strong execution with 9% revenue growth, 9% non-GAAP EPS growth², and strong cash flow

		2Q25	Y1Y
\$ in millions, except per share amounts			
Dell Technologies	Revenue	25,026	9%
	Operating Income	1,342	15%
	Diluted EPS ¹	\$1.17	86%
	Non-GAAP Operating Income ²	2,034	3%
	Non-GAAP Diluted EPS ^{1,2}	\$1.89	9%
Client Solutions Group	CSG Revenue	12,414	-4%
	Operating Income	767	-21%
	Commercial Revenue	10,556	0%
	Consumer Revenue	1,858	-22%
Infrastructure Solutions Group	ISG Revenue	11,646	38%
	Operating Income	1,284	22%
	Servers & Networking Revenue	7,672	80%
	Storage Revenue	3,974	-5%

AI Servers

Q2 demand was strong, with AI optimized server orders revenue up 23% sequentially to \$3.2B

Strong Cash Flow

Cash Flow from Operations of \$1.3B in Q2, and \$6.1B TTM

CSG Revenue

Second consecutive quarter of sequential revenue growth

Traditional Server

Demand grew sequentially for the fifth consecutive quarter and was up Y/Y for the third consecutive quarter

FIGURE 1: (SOURCE: DELL)

- **Revenue:** \$25 billion, up 9% year-over-year.
- **Diluted EPS:** \$1.89, a 9% increase.
- **Cash Flow from Operations:** \$1.3 billion.
- **ISG Revenue:** Record \$11.6 billion, up 38% year-over-year.
- **Server and Networking Revenue:** \$7.7 billion, an 80% increase.
- **Storage Revenue:** \$4 billion, down 5% due to headwinds in the partner IP portion of the HCI portfolio.
- **Operating Income:** \$2 billion, up 3%, with an operating margin of 8.1%.

NON-FISCAL HIGHLIGHTS

Dell's Q2 performance was bolstered by several key non-financial achievements that underscore the company's strategic focus.

- **AI Momentum:** Continued acceleration in AI-driven segments, particularly in AI server orders and shipments.
- **Product Innovation:** Expansion of Dell's AI server capabilities, including both air and liquid-cooled systems optimized for performance.
- **Customer Engagement:** Growing interest from enterprise customers in AI solutions, indicating broader adoption across various industries.

- **Strategic Partnerships:** Announced partnerships with NVIDIA and Nutanix, enhancing Dell’s capabilities in AI and hyper-converged infrastructure.

GUIDANCE & OUTLOOK

Dell provided a positive outlook for the remainder of the fiscal year, with most of the growth expected to be driven by AI and a recovery in traditional IT hardware.

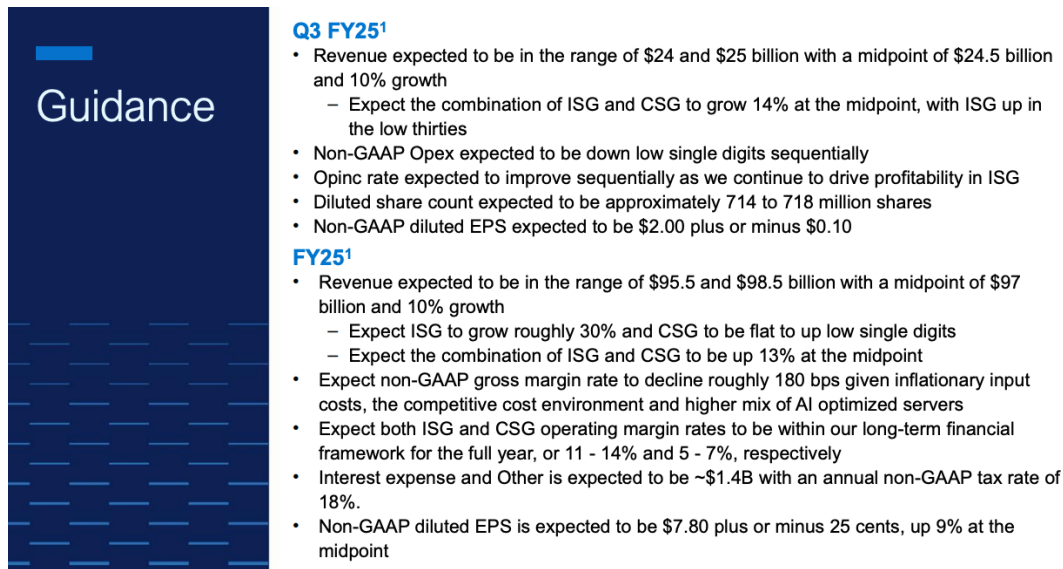


FIGURE 2: (SOURCE: DELL)

- **Full-Year Revenue Guidance:** Expected to be between \$95.5 billion and \$98.5 billion, with a midpoint of \$97 billion, representing 10% growth.
- **ISG Revenue Growth:** Projected to grow roughly 30%, primarily driven by AI and traditional server business momentum.
- **CSG Revenue:** Expected to be flat to low single digits for the year, with growth anticipated in the second half.
- **Gross Margin Rate:** Anticipated decline of approximately 180 basis points due to competitive pricing and a higher mix of AI-optimized servers.
- **EPS Guidance:** Non-GAAP EPS is expected to be \$7.80, plus or minus \$0.25, up 9% at the midpoint.

DEEP DIVE: ISG (DATA CENTER) PERFORMANCE

Dell's Infrastructure Solutions Group (ISG) stood out in its Q2 results, driven by strong demand for traditional and AI-optimized servers.

Infrastructure Solutions Group

Strong momentum in ISG with record revenue, improving profitability, and AI as a significant tailwind

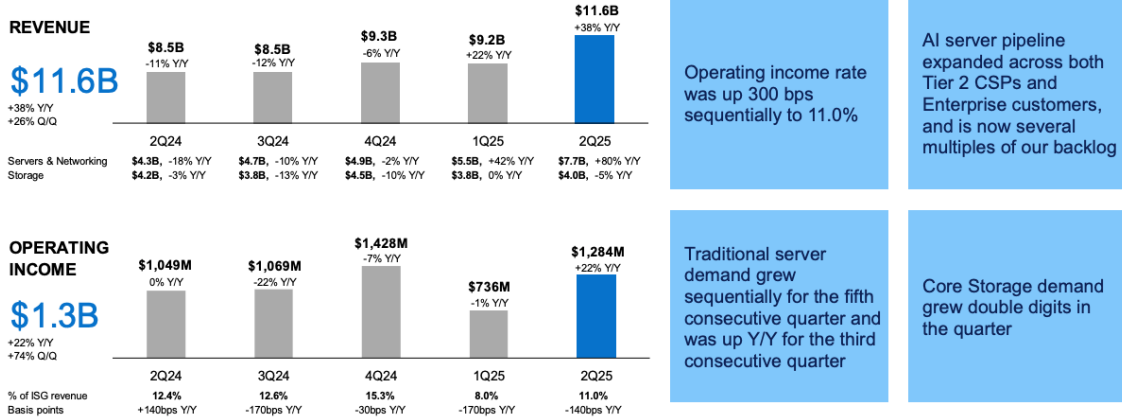


FIGURE 3: (SOURCE: DELL)

- **Revenue Performance:** Record \$11.6 billion in ISG revenue, a 38% year-over-year increase.
- **Server and Networking Growth:** \$7.7 billion in revenue, an 80% increase, driven by AI server demand.
- **AI Impact:** AI-optimized servers contributed significantly to ISG's growth, with a \$3.8 billion backlog and a growing pipeline.

Growing AI TAM paired with #1 positions in servers and storage

Long-term structural share gains in server, and storage share greater than next two competitors combined

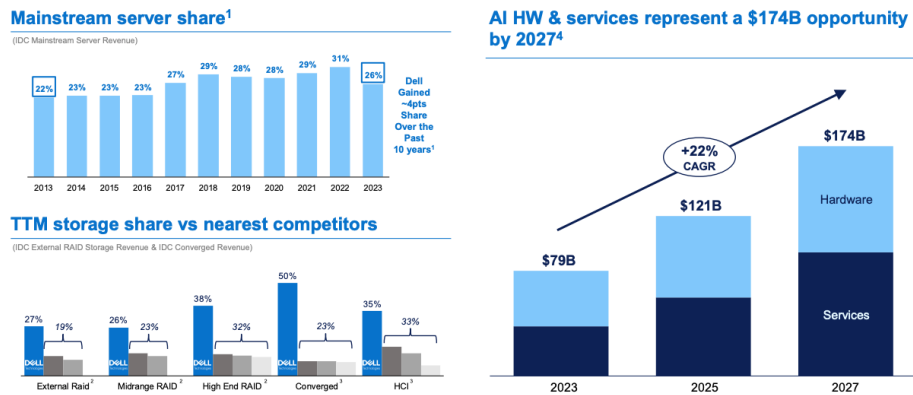


FIGURE 4: (SOURCE: DELL)

- **Storage Performance:** Despite a 5% year-over-year decline in storage revenue, core Dell IP storage products like PowerMax and PowerScale saw double-digit demand growth.
- **Operating Income:** ISG's operating income increased 22% to \$1.3 billion, with a margin improvement of 11% of revenue, driven by AI and disciplined pricing.

At the same time, there are some cautionary signals:

- **Storage Revenue Decline:** Despite the positive performance of core storage products, overall storage revenue for ISG declined by 5% year-over-year. This decline was primarily due to headwinds in the partner IP portion of Dell's hyper-converged infrastructure (HCI) portfolio.
- **Competitive Pressures:** The traditional server and storage markets continued to face competitive pressures, which impacted pricing and contributed to the mixed results within ISG.
- **ISG Mix Shift:** While the growth in AI servers was a highlight, the shift in ISG's product mix towards higher-margin AI servers also introduced challenges. The increased focus on AI-optimized servers led to a more competitive environment, contributing to margin pressures in other parts of the business.

Multiple dynamics influenced the ISG business during the quarter:

- **AI as a Growth Catalyst:** The rapid adoption of AI technologies across industries was a significant driver of Dell's revenue growth.
- **Competitive Pressures:** While the AI server segment performed well, Dell faced competitive pressures in traditional server and storage markets. These pressures impacted pricing and necessitated focusing on value-added services to maintain profitability.
- **Storage Revenue Decline:** Despite strong performance in core storage products, overall storage revenue in ISG declined by 5% year-over-year. This was mainly due to challenges in what Dell describes as "the partner IP portion" of Dell's HCI portfolio, which offset gains in proprietary storage solutions. Dell is referring to its shifting agreement with VMware for its popular vxFlex solution. Dell is mitigating by rebuilding its relationship with VMware while also pursuing an offsetting strategic relationship with Nutanix.

- **Product Mix Shift:** The shift towards higher-margin AI servers was positive for overall profitability, but it also introduced challenges in managing the mix between traditional and AI-focused products.
- **Macroeconomic Factors:** Broader economic conditions, including inflationary pressures and supply chain challenges, also contributed to Dell's performance. The company navigated these headwinds by optimizing its cost structure and focusing on high-margin areas like AI.

Dell's ISG business showed robust growth and solidified its position as a leader in the infrastructure solutions market, particularly in AI-optimized servers. However, the segment also faced challenges, including a decline in storage revenue and ongoing competitive pressure.

ANALYSIS

The ISG group was a significant contributor to Dell's Q2 FY'25 earnings:

- **AI as a Growth Driver:** AI-related products and services are increasingly central to Dell's revenue growth, particularly within ISG.
- **Operational Efficiency:** Dell's ability to enhance profitability through disciplined pricing and strategic product offerings demonstrates strong operational control.
- **Market Positioning:** Dell's leadership in traditional servers, storage, and expanding AI capabilities ensures it remains competitive in a rapidly evolving market.
- **Customer Adoption:** The growing number of enterprise customers investing in AI solutions indicates broader market acceptance and positions Dell to capitalize on future AI trends.
- **Long-Term Outlook:** With a robust pipeline in AI servers and expected growth in ISG, Dell is well-positioned to benefit from the ongoing digital transformation across industries.

Dell's performance during the quarter was characterized by strong growth in its ISG business, particularly in AI-optimized servers. The company effectively leveraged the growing demand for AI infrastructure to drive record revenue in its server and networking segments.

Despite the positive revenue growth in ISG, the operating income increase of 22.4% was lower than the revenue growth rate, showing that the company

faces challenges in maintaining margins. This disparity is attributed to the high costs associated with AI servers, which, while profitable, may still dilute overall margins. GPUs remain the big ticket item on these products, which returns less margin to Dell than does other components.

Looking forward, Dell expects revenues between \$95.5 billion and \$98.5 billion for fiscal 2025, with ISG revenues projected to grow by about 30%, driven by AI servers. However, the gross margin rate is expected to decline due to competitive pressures and higher component costs. Despite their growing share, AI servers continue to exert pressure on overall profitability.

As Dell aggressively competes in the AI server space, it faces the dual pressures of maintaining competitiveness while trying to protect margins. The decline in storage revenue by 5.1% also raises questions about the long-term viability of this segment, particularly as the broader industry shifts towards more advanced, data-intensive AI workloads.

As Dell navigates these complexities, its success will hinge on its ability to balance aggressive market expansion with disciplined financial management. The AI boom is real, and Dell is well-positioned to capitalize on it, but the journey will require careful steering to ensure that growth translates into sustainable profitability.



© Copyright NAND Research.

NAND Research is a registered trademark of NAND Research LLC, All Rights Reserved.

This document may not be reproduced, distributed, or modified, in physical or electronic form, without the express written consent of NAND Research. Questions about licensing or use of this document should be directed to info@nand-research.com.

The information contained within this document was believed by NAND Research to be reliable and is provided for informational purposes only. The content may contain technical inaccuracies, omissions, or typographical errors. This document reflects the opinions of NAND Research, which is subject to change. NAND Research does not warranty or otherwise guarantee the accuracy of the information contained within.

NAND Research is a technology-focused industry analyst firm providing research, customer content, market and competitive intelligence, and custom deliverables to technology vendors, investors, and end-customer IT organizations.

Contact NAND Research via email at info@nand-research.com or visit our website at nand-research.com.