Dell Technologies Inc. (DELL)

Q3 materially improves earnings power; non-GPU profit durability is decisive

FQ3 2027 Earnings Review
Period ended 2026-10-30
Reported 2026-11-24

1 | KEY RESULTS VS. CONSENSUS

Metric	Reported	Consensus	vs. Cons.
Revenue	$54.94 billion	$49.33 billion	+11.4%
Operating Income (adjusted)	$7.83 billion	$5.58 billion	+40.3%
Diluted EPS (adjusted)	$9.45	$6.60	+43.2%
SEGMENT REVENUE			
Infrastructure Solutions Group	$41.97 billion	$34.8 billion	+20.6%
Client Solutions Group	$12.89 billion	$14.4 billion	-10.5%

2 | GUIDANCE AND OUTLOOK

FY2027 guidance rises: revenue $202 billion from $192 billion; adjusted EPS $29.68 from $25.50; AI revenue $78 billion from $74 billion. Q4 guidance: revenue $55.75 billion to $56.75 billion; adjusted EPS $8.30 to $8.50. ISG and CSG operating margins normalize toward prior-year Q4's approximately 14.8% and 4.7%. Traditional-server growth slows to approximately 137%, storage to low teens, and CSG revenue is roughly flat. PC units are expected to remain soft next year. No formal FY2028 guidance.

3 | EARNINGS ANALYSIS

TRADITIONAL SERVERS DRIVE THE BEAT. Traditional servers and networking beat consensus by approximately $4.16 billion, versus approximately $2.73 billion for AI servers. This was not simply expensive GPUs flowing through a low-margin integration business. Server units were down: growth reflects richer configurations, component inflation and product mix rather than comparable physical shipment growth. ISG generated approximately 91% of reportable-segment operating income. CSG missed consensus by approximately $1.51 billion, and its 5.5% operating margin undershot the September outlook around 6%. Enterprises are prioritizing infrastructure over PC refresh, demonstrating that technology budgets are not unlimited.

OPERATING IMPROVEMENT IS REAL. GAAP operating income of $7.44 billion versus adjusted operating income of $7.83 billion shows that earnings growth did not depend on widening adjustments. Intangible amortization, stock-based compensation and other corporate expenses were excluded; investment fair-value gains were removed from adjusted earnings. Repurchases helped EPS, but operating performance drove most of the increase. Conventional free cash flow converted approximately 57% of adjusted net income, so current earnings were not fully converted into cash.

STRUCTURAL LEVERAGE, NORMALIZING MARGINS. Adjusted operating expenses rose 20%, far below revenue growth, reducing the expense ratio to 7.0%. Adjusted gross margin of 21.2% was almost unchanged year over year, making operating leverage central to margin expansion. Management calls the expense separation structural, but procurement advantages, inventory timing and price realization were not quantified. Q4 adjusted EPS of $8.40 implies an 11.1% sequential decline as favorable North American mix moderates and AI shipments rise. The quarter establishes a higher earnings base, not a permanent margin floor.

FINANCING STILL ABSORBS CASH. Q3 capital expenditures and capitalized software development costs were $985 million. Dell held $16.3 billion of cash and investments, but approximately $38.0 billion of principal debt included approximately $21.2 billion of DFS-related debt. Year-to-date adjusted free cash flow of $15.602 billion exceeded conventional free cash flow of $7.578 billion largely through financing-receivables addbacks, not extra collections. The constructive earnings assessment depends on durable non-GPU profitability and cash generation after financing requirements.

BACKLOG IS NOT FUNDED REVENUE. AI orders of $60.2 billion were slightly below Q2's $60.9 billion; backlog reached $132.3 billion. Management reported no customer rescheduling and reviews financing and site readiness before production. Yet cancellation penalties, deposits, repricing rights and remedies for delays remain undisclosed. Underwriting improves customer selection, not contractual risk transfer.

4 | KEY READ-THROUGHS

CPU COMPUTE IS BECOMING A COMPLEMENT TO AI ACCELERATORS

Advanced Micro Devices (AMD), Intel (INTC) | Positive | High for server businesses

Traditional-server revenue grew 235% despite declining units. Inference and agentic workloads were the fastest-growing component, with CPU-intensive orchestration, sandboxing and data access expanding demand beyond refresh. Higher core counts and richer configurations support AMD EPYC and Intel Xeon. Approximately twice the system selling price does not mean twice the CPU price; Dell disclosed no supplier share allocation. Intel's PC weakness and foundry economics remain offsets; competing architectures prevent treating all orchestration demand as an exclusive x86 opportunity.

MEMORY PRICING HAS SUPPORT BEYOND HBM

Micron (MU), SK hynix (000660) | Positive | High

Dell expects server DRAM and enterprise NAND inflation into calendar 2027, although slower than in 2026. More memory per server supports content demand, while tight supply supports pricing. HBM constrains other DRAM capacity; NAND has separate manufacturing economics. This corroborates favorable conditions, not a quantified shipment upgrade. Micron's December 17 report is the nearest verified catalyst. Slower inflation is not falling prices: profitability can stay elevated even as growth decelerates. Favorable conditions do not automatically create immediate earnings upgrades.

LIQUID COOLING IS EXPANDING BEYOND GPU RACKS

Vertiv (VRT), Eaton (ETN) | Positive | High for VRT; moderate to high for ETN

Dell shipped a fully liquid-cooled networking rack and plans liquid-cooled storage, broadening thermal infrastructure beyond GPUs. Backlog across nearly 100 sites supports geographically wider power demand. Vertiv reported organic orders growth above 100%; Eaton reported 46% electrical-backlog growth. Dell validates buildout durability, not supplier awards. Equipment ordered before servers arrive may already be in supplier backlogs. Liquid cooling moves heat rather than eliminating facility heat rejection. Near-term tests are backlog conversion, capacity expansion and 2027 shipment outlooks.

AI INFRASTRUCTURE IS CROWDING OUT PC REFRESH

HP (HPQ), Lenovo (0992) | Negative | High conviction for PC unit demand and cost pressure

Customers defer PC refresh for infrastructure. Higher memory costs suppress units if passed through or margins if absorbed. HP's Personal Systems revenue grew 14%, but units fell 29% and margin was 3.0%, despite AI PCs nearing 60% of shipments. Lenovo's infrastructure and services materially offset device exposure. HP's FY2027 adjusted EPS will exclude stock-based compensation, with restated comparatives; unrevised comparisons would overstate operational progress. An aging installed base does not establish recovery timing.

Prepared from the company's earnings release and earnings call transcript. Figures as reported by the company. For information only. Not investment advice.