



NETAPP
FIRST QUARTER OF FISCAL YEAR 2027
PREPARED REMARKS
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Prepared remarks by:

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Kris: Hi everyone – thanks for joining our Q1 FY27 earnings call. With me today are our CEO, George Kurian, and CFO, Wissam Jabre. This call is being webcast live and will be available for replay on our website at netapp.com.

During today's call, we will make forward-looking statements and projections with respect to our financial outlook and future prospects, including, without limitation, our guidance for the second quarter and fiscal year 2027; our expectations regarding future revenue, profitability and shareholder returns; the expected benefits from our acquisitions and partnerships; and other growth initiatives and strategies.

These statements are subject to various risks and uncertainties, which may cause our actual results to differ materially.

For more information, please refer to the documents we file from time to time with the SEC and on our website, including our most recent Form 10-K and Form 10-Q. We disclaim any obligation to update our forward-looking statements and projections.

During the call, all financial measures presented will be non-GAAP, unless otherwise indicated. Reconciliations of GAAP to non-GAAP measures are available on our website.

I'll now turn the call over to George.

George: Thanks, Kris. Good afternoon, everyone. Thank you for joining us today.

We delivered a stellar start to the year, exceeding our Q1 guidance on every metric and delivering a record-setting first quarter. Revenue increased 30% year-over-year to \$2.03 billion.

Our disciplined approach converted robust topline growth into significant profitability, even in a challenging component cost environment with gross profit growing 29% to a record \$1.43 billion, operating margin reaching 31.9%, and EPS up 66% from Q1 a year ago. Adjusting for the additional week in Q1, our performance still stands as one of the best in the company's history.

This quarter's achievements reflect more than just strong execution; they underscore NetApp's growing leadership in a rapidly evolving environment. Our broad-based success spanned industries, and geographies, with multi-year agreements, expansion into new workloads, and deeper customer engagement—all strong leading indicators of durable growth. While we are seeing some accelerated purchase decisions and pricing benefits, we are also seeing a clear, structural improvement in the underlying demand environment, all of which contributed to Q1's strong results and are fueling our momentum. This exceptional quarter is both a testament to our execution and a clear signal of the expanding opportunities ahead. Given our strong start and the success we're seeing across our business, we are materially raising our outlook for the year.

AI is no longer a future aspiration; it's a business imperative. As organizations move to operationalize AI, the challenge is not just compute, but data readiness. NetApp is a key partner for companies making this shift — eliminating complexity and accelerating time-to-value at scale. The NetApp Platform enables customers to make all data AI-ready in place, providing unified storage, robust security, and a single control plane across hybrid multicloud environments — delivering capabilities that redefine expectations in the industry. By removing the need for data movement, we empower enterprises to accelerate AI and analytics, while maintaining governance and control, enabling them to transition from AI experimentation to production with confidence.

The strength of our platform is fueling both deeper relationships with existing customers and new customer acquisition. A recent win highlights this momentum: in a highly competitive evaluation, a major U.S. utility chose NetApp over both legacy and flash-only competitors, displacing the incumbent and standardizing on our unified, AI-ready data infrastructure. Wins like this, where a customer entrusts their most demanding workloads to NetApp, are leading indicators of our expanding role in the market and set the stage for long-term growth.

Our record Q1 was fueled by robust growth in public cloud, all-flash, and Keystone revenues, reflecting the momentum in our business and validating our strategy as we deliver meaningful results for customers.

Driven by strong adoption of our first party and marketplace storage services, Q1 Public Cloud revenue grew to \$206 million, up 28% year-over-year, and up 19% adjusting for the extra week. Customers choose NetApp for our secure, scalable, cloud-native storage services as they migrate workloads to the cloud.

VMware workloads, in particular, are among those increasingly being moved to the cloud, opening significant opportunities for NetApp. In Q1, a U.S. hospitality company adopted NetApp technology for the first time through Amazon FSx for NetApp ONTAP, supporting its large-scale VMware migration to AWS. FSxN delivered superior performance, lower costs, and versatile workload support. Similarly, a U.S. Public Sector organization selected Azure NetApp Files as a part of its data modernization efforts. ANF overcame technical barriers found in other cloud services and enabled substantial cost savings. These wins highlight how NetApp's differentiated cloud storage solutions facilitate seamless, efficient VMware migrations, reinforcing our ability to drive sustained growth as organizations accelerate their cloud adoption.

All-flash array revenue reached \$1.31 billion in Q1, up 47% year-over-year. Customers are standardizing on NetApp for their most mission-critical workloads, including GPU-intensive AI pipelines that demand high performance, low latency, and built-in cyber resilience. Our innovation and go-to-market execution continue to drive share gains in this part of the market.

In today's challenging cost environment, the breadth and flexibility of the NetApp Platform stand as strategic advantages. We empower customers to optimize performance, capacity, and budget requirements without compromising cyber resiliency or operational simplicity. This value proposition is driving strong customer demand across our portfolio and, notably, we are seeing accelerating interest in our hybrid flash solutions.

Let me share recent examples of how the breadth of our portfolio has enabled us to displace competitors and win new customers.

In its first engagement with NetApp, a European IT service provider for pension insurance selected our unified storage to meet stringent security and resilience requirements for critical infrastructure. Our flexible architecture not only supports the availability and integrity of highly sensitive data today, but also provides a secure, efficient, and sustainable foundation for future AI workloads.

NetApp recently displaced a competitor at a leading transportation agency. Our solution combined all-flash arrays for high-performance processing of massive video files with hybrid flash arrays for reliable, cost-effective long-term retention. Our ability to deliver the scalability, reliability, and performance required for advanced analytics and ongoing infrastructure maintenance was key to the win.

AI is powering a new wave of growth for NetApp, momentum that has been building and continues to accelerate. In Q1, we won approximately 350 AI and data lake modernization deals, up significantly from a year ago. Importantly, deal sizes are increasing as customers move from proof-of-concept to production. Initial wins in prior years are expanding into production-level workloads, reflecting confidence in NetApp's ability to support large scale AI

environments. Our solutions are enabling customers to activate data in place for AI, accelerate time-to-insight, and achieve real business outcomes, putting NetApp at the center of their AI journeys.

Here are a few examples from Q1:

We signed a significant agreement with Samsung Electronics to support its EDA environment and AI center of excellence.

A public sector organization awarded NetApp a strategic deal to modernize and expand its intelligence capabilities and deliver real-time analytics, leveraging NetApp AFX integrated with NVIDIA SuperPOD. AFX's disaggregated architecture provides the flexibility and performance required for advanced AI workloads and provides a future-ready foundation, delivering the power and scalability needed to meet evolving requirements as data demands grow.

NetApp secured a significant win with an Asian neo cloud provider, supplying high-availability, secure, and scalable storage for new customer-facing AI services. Our robust multi-tenancy and deep expertise in large-scale Kubernetes and OpenStack environments set us apart, helping the provider to modernize its infrastructure and support demanding AI inference workloads. This win displaced existing vendors and established a strong foundation for NetApp in one of the provider's most strategic AI initiatives.

We are strengthening our leadership through strategic acquisitions that expand the capabilities of the NetApp Platform and broaden our addressable market. These investments position us to stay ahead as customer needs evolve, deepening our differentiation in cloud and AI.

In Q1, we acquired DataPelago, a recognized innovator in AI data infrastructure. Their Nucleus software engine enables high-performance, in-place data processing, eliminating costly data movement and streamlining AI readiness. With this technology, we believe we can unlock additional value from the vast unstructured data already managed on our platform, giving customers fresh opportunities to accelerate their AI initiatives and maximize the potential of their existing data assets. This positions NetApp as the company that makes zero-copy activation of enterprise data for AI real, helping customers drive AI initiatives, improve efficiency, and unlock more value from their data.

At the start of Q2, we acquired JetStream, a leader in cloud-native disaster recovery for VMware environments. JetStream enables continuous protection and recovery of VMware workloads across diverse storage environments, with seamless replication to NetApp cloud offerings like Azure NetApp Files. This acquisition will allow us to offer a

simpler, more flexible path to cloud modernization and positions NetApp as the recovery destination of choice for VMware deployments, even when production data originates from competitors' infrastructure.

NetApp's strong Q1 results underscore our leadership in a transformative era shaped by accelerating AI and cloud adoption. The strength and flexibility of the NetApp Platform allow us to support a diverse and growing customer base. By winning new business, deepening partnerships, and investing in innovation, we are building a durable foundation for continued leadership and long-term growth. We are executing with discipline and vision and building on our leadership to deliver sustained value for our customers and shareholders.

We are excited to host our annual customer conference, NetApp INSIGHT, in September. We will showcase substantial innovation throughout the NetApp Platform, delivering new value for AI and addressing the unique needs of high-growth markets like neo and sovereign clouds. We also will host an investor session to provide more detail on our strategy and solutions. We hope you will join us.

In closing, I want to thank our employees for their dedication and focus. Our record start to the year is a testament to our team's commitment to our customers and to driving NetApp's continued success.

I'll now turn it over to Wissam.

Wissam: Thanks, George. And good afternoon, everyone.

In the fiscal first quarter, we delivered exceptional results, exceeding the high-end of all our guidance ranges. Revenue for the quarter was \$2.03 billion, up 30% year-over-year and 4% sequentially. Non-GAAP earnings per share was \$2.58, up 66% year-over-year.

Revenue growth was driven by broad-based momentum across the business, highlighting the strength of our portfolio. This quarter's results reflect a healthier demand environment, as customers invest in AI and modernization, as well as some accelerated purchases and pricing benefits.

As a reminder, Q1 included an additional week.

Revenue was up 26% year-over-year excluding the effect of the extra week, which contributed approximately \$65 million to revenue, primarily in Support and Public Cloud.

Looking at revenue by segment, Hybrid Cloud revenue of \$1.82 billion was up 30% year-over-year, and 27% adjusting for the additional week. Product revenue of \$987 million was up 51% year-over-year. Support revenue of \$720 million was up 11% year-over-year, and up 4% excluding the extra week, which contributed approximately

\$50 million. Professional Services revenue of \$112 million was up 15% year-over-year, mainly driven by continued robust growth in Keystone, our storage-as-a-service offering.

Q1 Public Cloud revenue of \$206 million was up 28% year-over-year and up 19% adjusting for the extra week, reflecting strong demand for first party and marketplace storage services. The additional week contributed approximately \$15 million to Public Cloud.

We exited Q1 with \$4.85 billion in deferred revenue, an increase of 7% year-over-year. Remaining Performance Obligations were \$5.65 billion, up 14% year-over-year.

Moving to the rest of the income statement. Please note my comments will be related to non-GAAP results unless stated otherwise.

Q1 gross margin was 70.6%, exceeding the high-end of our guidance, and down 50 basis points year-over-year, driven by greater product revenue mix compared to a year ago. Product revenue in the quarter was 49% of total revenue compared to 42% in the same period last year. The headwind from revenue mix was partially offset by year-over-year gross margin expansion across product, support, professional services and public cloud. Gross profit was \$1.43 billion, up 29% compared to Q1 2026.

Hybrid Cloud gross margin was 68.8%, down 20 basis points sequentially reflecting lower product gross margin and partially offset by improvement in Support and Professional Services gross margin. Product gross margin was 54.6%, down 150 basis points sequentially, mainly driven by higher component costs and partially offset by better pricing. Our recurring support business continues to be highly profitable, with gross margin of 93.2%. Professional Services gross margin was 36.6%, improving 4.5 percentage points sequentially.

Public Cloud gross margin was 86.4%, up 70 basis points sequentially and over 6 percentage points year-over-year, benefiting slightly from the additional week. The Public Cloud business has operated above the high-end of the 80-85% long-term target range in the past 3 quarters.

Operating expenses of \$784 million, were up 11% year-over-year and 5% sequentially, driven primarily by variable compensation and the impact of the additional week, which added approximately \$22 million.

Operating income was \$645 million, up 61% compared to Q1 2026, and operating margin was 31.9%, up 6.0 percentage points year-over-year.

Earnings per share exceeded the high-end of the guidance range at \$2.58, up 66% year-over-year, more than double the growth rate of revenue, highlighting the operating leverage and our ability to translate that into earnings power.

In Q1, cash flow from operations was \$503 million and free cash flow was \$401 million.

During the first quarter, we returned \$302 million of capital to our shareholders with \$200 million in share repurchases and \$102 million paid in dividends of \$0.52 cents per share. Q1 diluted share count of 200 million decreased by 3 million shares, or 1.5% year-over-year.

Our balance sheet remains very healthy. We closed the quarter with \$3.6 billion in cash and short-term investments and \$2.5 billion in gross debt outstanding, resulting in a net cash position of \$1.1 billion. Inventory expanded both year-over-year and quarter over quarter as we managed supply and inventory levels to support growing demand. Inventory turns were 6, down sequentially.

Overall, Q1 was an excellent start to the fiscal year, highlighted by strong revenue growth amid heightened AI and cloud driven storage solutions demand. Combined with our disciplined execution, our revenue growth drove meaningful operating margin and EPS outperformance, and robust cash flow generation.

Now turning to non-GAAP guidance, starting with Q2.

We expect revenue to be \$2.10 billion, plus or minus \$75 million. At the midpoint, this implies 23% year-over-year growth.

We expect gross margin to be in the range of 67.0% to 68.0%, sequentially lower, primarily driven by higher product revenue mix as a percentage of total revenue.

We expect operating margin to be in the range of 30.9% to 31.9%.

We expect earnings per share to be in the range of \$2.54 and \$2.64, with a midpoint of \$2.59.

Turning now to full year fiscal 2027.

We remain confident in the strength of our portfolio and our ability to execute in the current environment. Strong demand and continued business momentum reinforce that confidence and support our increased outlook for the year.

We are raising our fiscal year revenue and EPS guidance.

We now expect fiscal year 2027 revenue to be in the range of \$7.975 billion to \$8.225 billion dollars. At the \$8.100 billion midpoint, this represents 17% year-over-year growth and an increase of \$650 million compared to our prior guidance.

We expect gross margin to be in the range of 68.1% to 69.1%. The revised range primarily reflects a higher expected mix of product revenue compared with our prior guidance. At the same time, our fiscal year 2027 product gross margin expectations have improved slightly, while the underlying gross margin outlook for the rest of the business remains largely unchanged.

We are raising operating margin to be in the range of 30.3% to 31.3%.

We are raising earnings per share to be in the range of \$9.73 to \$10.03. At the \$9.88 midpoint, this represents 22% year-over-year growth.

In closing, as we look ahead to the rest of fiscal year 2027, we remain confident in our strategy and disciplined execution. Our focus stays firmly on delivering strong revenue growth and profitability, strengthening free cash flow, and building long-term value for our customers and shareholders.

With that, I'll now turn the call over to Kris for Q&A.

Kris: Thanks Wissam. Operator, let's begin the Q & A.