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NETAPP
FOURTH QUARTER AND FISCAL YEAR 2025
PREPARED REMARKS
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Prepared remarks by:
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George Kurian, Chief Executive Officer
Wissam Jabre, EVP and Chief Financial Officer

Kris: Hi everyone – thanks for joining us. 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 first quarter and fiscal year 2026; our expectations regarding future revenue, profitability and shareholder returns; 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 estimates are available on our website.

I'll now turn the call over to George.

George: Thanks, Kris and good afternoon, everyone, thank you for joining us.

Record revenue for the fourth quarter and fiscal year 2025 was driven by strong growth and significant market share gains in all-flash storage, along with accelerating growth in our first party and marketplace storage services. We achieved all-time highs for gross profit, operating profit, operating margin, and EPS in fiscal year 2025, a clear indication of our ability to navigate a dynamic environment. By relentlessly prioritizing our four growth opportunities and leveraging AI for increased efficiencies, we are able to invest in growth and expand our profitability metrics.

In fiscal year 2025, we refreshed our entire systems portfolio, sharpened the focus of our cloud services, and positioned ourselves to lead in the enterprise AI market. I believe that we've now reached an inflection point where the growth of all-flash systems and public cloud services, reinforced by the ongoing development of the AI market, will drive sustained top-line growth. Five years ago, these areas accounted for less than half our total revenue; today, they represent over two-thirds. Looking ahead, we expect these growth drivers, along with our laser focus, prioritized investments, and robust execution, to deliver more company records in fiscal year 2026 and beyond.

Organizations are turning to NetApp to help them with data-driven strategies to deliver competitive advantage and operational efficiencies. As the enterprise AI market evolves and expands, there is greater urgency to transform. The demands of AI are complex and unrelenting, with massive volumes of data scattered across multiple silos. This fragmentation leads to difficult integrations, inefficiencies, and challenges in governance, security, and data protection. GenAI transformation has made it clear that legacy architectures are inadequate to serve these complex workloads. NetApp's unified data architecture, spanning any data type, anywhere, enables customers to build an intelligent data infrastructure, delivering the required flexibility needed to overcome these barriers.

Our modern approach to hybrid, multicloud infrastructure and data management empowers organizations to harness the full potential of their entire data estate—simply, securely, and sustainably. We are expanding our installed base and reaching new customers with our AI-ready intelligent data infrastructure, which reduces cost and complexity by seamlessly bridging on-premises and cloud storage with unified control. The world's biggest cloud providers, as well as governments and leading companies, trust and rely on our technology.

All-flash array annualized revenue run rate grew 14% from Q4 a year ago to a record $4.1 billion. In the fourth quarter, all-flash made up approximately two-thirds of Hybrid Cloud segment revenue and 44% of systems in our installed base under active support contracts are all-flash. The rich data services of our all-flash, unified data storage systems create a secure foundation for consolidating organizational data and accelerating AI-powered insights. As organizations seek to build future-proof, AI-ready infrastructure, they increasingly choose our solutions, driving our faster-than-market growth. In calendar 2024, we gained almost 300 basis points of all-flash market share, more than any other vendor, as reported by IDC.

We are in the early stages of our entry into the dedicated block storage market with plenty of headroom for continued growth. The breadth of our advanced data management helps organizations lower operational risk and enhance business continuity by keeping data available, protected, and secure. We are seeing accelerating growth from our block optimized ASA systems, as we displace competitors' legacy installations with our simple, powerful, scale-out all-flash block storage. Our momentum outpaced the market and resulted in almost 100 basis points of share gain in calendar 2024, per IDC.

Demonstrating the power of our comprehensive all-flash portfolio, we signed a deal in the fourth quarter with a leading life sciences company to replace a competitor's nearly 10PB footprint. With NetApp, they can now meet diverse multiprotocol and price/performance requirements under a single operating environment, streamlining their data operations.

To keep pace in an AI-driven world, companies must unlock the scale and agility of the public cloud. Only NetApp can help them achieve the required cost efficiency, cybersecurity, and AI readiness with services co-engineered with the major cloud providers. We continue to expand the workloads we address in the cloud and enhance our alignment with our hyperscaler partners' go-to-market motions, broadening our opportunity and accelerating growth.

Over the course of fiscal year 2025, we focused our Public Cloud services to emphasize our highly differentiated first party and marketplace cloud storage services, closely complemented by intelligent data, operational, and workload services. This strategic focus continues to yield positive results. First party and marketplace cloud storage services grew 44% year-over-year in the fourth quarter. These services compose roughly 75% of Public Cloud segment revenue, which grew 22% from Q4 a year ago, excluding the recently divested Spot by NetApp services.

A SaaS provider needed high-performance, multiprotocol storage to meet their cost-optimization and resiliency requirements. In Q4, this new-to-NetApp customer chose to migrate to AWS FSx for NetApp ONTAP. FSxN helped the customer achieve a high performance, unified file and block environment with improved availability and resiliency for efficient and secure operations, with a more cost-effective solution than alternatives.

Just as we have helped enterprises harness the power of hybrid cloud environments, we are now enabling them to accelerate their AI deployments and achieve faster time to value. As the market for enterprise AI evolves, customers are moving from proof-of-concepts to real-world deployments, driving the need to unify their data for business impact. Our secure, cloud-integrated, silo-free infrastructure positions us as a leader in this transformation. We power AI pipelines from data preparation to model training to production deployments on-premises and in the cloud. In the fourth quarter, our AI business grew five-fold year over year, again performing ahead of plan. We closed approximately 150 AI infrastructure and data lake modernization deals, spanning multiple geographies, industries, and use cases.

Over the course of fiscal year 2025, we dramatically expanded our AI ecosystem, delivering innovations with NVIDIA, Domino, Dremio, the Open Platform for Enterprise AI open-source project, and leading hyperscaler AI tool kits. We also introduced AI reference architectures with NVIDIA for AIDP, Cisco for FlexPod, Lenovo for AIPod, and, most recently, Intel for AIPod Mini. In Q4, our high-performance ONTAP all-flash storage was certified for NVIDIA DGX SuperPOD, NVIDIA Cloud Partners, and NVIDIA-Certified Systems. Building on our large installed base of unstructured data, we enable customers to gain intelligence from their data in place, making it ready and useful for production AI use cases without the need for migrations or changes to data operations. We are helping customers deploy AI inferencing in production today and expect fiscal year 2026 to be a pivotal year for enterprise AI storage, with the opportunity outstripping that of model training.

In the quarter, a large Asian telco service provider selected NetApp as the foundation for its AI workloads. The company needed to quickly stand up a cloud-based model training environment and, at the same time, build a larger model training cluster to support its plan to deliver GenAI as a Service. By leveraging NetApp solutions both on-premises and in the cloud, the customer optimized performance, cost, and scalability for both environments. This ensured seamless integration with their training pipelines, supporting current and future AI projects.

Before turning to the details of the quarter, I want to share some observations about the environment as we enter fiscal year 2026. The global macro-economic outlook faces mixed signals with a general slowdown in growth, lingering inflation concerns, and a significantly higher level of uncertainty. Looking ahead, we expect some increased spending caution, as well as on-going friction in US Public Sector and EMEA. We are incorporating an appropriate layer of caution in our outlook due to these factors.

Our fiscal year 2025 results demonstrate how the alignment of our solutions with key IT priorities, our focus, and the strength of our business model enable us to deliver strong performance in an uncertain environment. Additionally, the unfolding enterprise AI market is driving urgency amongst customers to modernize their data infrastructure, drive cloud transformations, and increase cyber resiliency. We are currently negotiating sizable AI and data infrastructure modernization deals with multiple large enterprises, which we expect to close later in the year. This gives us confidence in our full-year outlook.

We are starting fiscal year 2026 following a year of market share gains, armed with the strongest portfolio in the company’s history, and a value proposition that addresses customers’ top priorities. We plan to make prudent investments in R&D and sales capacity to drive ongoing innovation and capture additional market share. Looking ahead, I am confident in our ability to capitalize on this significant opportunity and deliver more record results.

Finally, I am happy to introduce Wissam Jabre, our new CFO. I am excited to have Wissam, with his deep knowledge of our market and strong track record of value creation, on the team. He has quickly integrated into NetApp and will be a key partner to me and the leadership team as we continue to execute on our visionary approach for a data-driven future.

Wissam – welcome!

Wissam: Thank you, George, for the warm welcome, and good afternoon, everyone. Let me start by expressing my appreciation to George and the entire board for giving me this opportunity, and to Mike, for his help and transition during my onboarding. I am extremely excited about joining NetApp and look forward to partnering with George and the rest of the talented team as we continue to drive innovation at NetApp.

As George noted, we achieved all-time highs across a variety of financial metrics in fiscal year 2025. We refreshed our entire systems portfolio, honed our focus in cloud, and expect to see even more enterprise AI growth in fiscal year 2026.

As a reminder, all numbers discussed are non-GAAP unless otherwise noted.

Total revenue for Q4 came in slightly above the midpoint of our guidance range at $1.73 billion, up 4% year-over-year and up 6% sequentially. Q4 billings of $2.03 billion were up 12% year-over-year. This marks our sixth consecutive quarter of year-over-year revenue and billings growth.

Q4 Hybrid Cloud revenue of $1.57 billion was up 3% year-over-year. Product revenue of $845 million was up 5% year-over-year. Support revenue of $625 million was flat year-over-year. Professional Services revenue of $98 million was up 13% year-over-year, mainly driven by Keystone, our storage-as-a-service offering.

Public Cloud revenue of $164 million was up 8% year-over-year. Excluding the recently divested Spot business, Public Cloud revenue grew 22% year-over-year, which is a better representation of the underlying growth rate of the segment.

We exited fiscal year 2025 with $4.54 billion in deferred revenue, an increase of 7% year-over-year and 5% year-over-year in constant currency. Q4 Remaining Performance Obligations were $4.97 billion, up approximately $500 million from Q1. Unbilled Remaining Performance Obligations, which is a key indicator of future Keystone revenue growth, was approximately $430 million, up 23% quarter over quarter.

Q4 consolidated gross margin was 69.5%. Total Hybrid Cloud gross margin was 68.4%. Product gross margin was 55.4%. Our recurring support business continues to be highly profitable, with gross margin of 92.3%. Public Cloud gross margin was 79.3%, up 290 basis points sequentially and 11 percentage points year-over-year. Our Public Cloud business now operates towards the high-end of the 75-80% long-term target range, and we remain confident in future tailwinds that can improve upon Q4's record margin.

Operating expenses of $707 million, were down 2% year-over-year and up 6% sequentially.

Q4 highlighted the strength of our business model and disciplined execution with operating margin of 28.6%, up 50 basis points year-over-year and representing the highest for a Q4 in the history of NetApp.

EPS of $1.93 was 4 cents ahead of the midpoint of the guidance range and up 7% year-over-year, predominantly driven by lower operating expenses and effective tax rate.

In Q4, cash flow from operations was $675 million and free cash flow was $640 million. These cash flow metrics were driven by higher collections and lower supply chain payments year-over-year.

During the fourth quarter, we returned $355 million to shareholders through $250 million in share repurchases and $105 million in cash dividends. Q4 diluted share count of 206 million was down 6 million shares, or 3% year-over-year. We had approximately $350 million left on our current share repurchase authorization at the end of fiscal year 2025, and today, we are announcing an increase in that authorization by $1.1 billion.

Before moving to guidance, let's review the results for the full fiscal year 2025. Revenue of $6.57 billion was up 5% year-over-year and billings of $6.78 billion was up 8% year-over-year, both all-time company highs. Disciplined operational management also yielded all-time fiscal year highs for operating margin and EPS, demonstrating the effect of high operating leverage in our business model. For fiscal year 2025, operating margin was 28.3%, up 150 basis points year-over-year, driven predominantly by flat operating expenses against a backdrop of 5% revenue growth. EPS grew 12% year-over-year, over twice the rate of revenue growth.

Operating cash flow was $1.51 billion and free cash flow was $1.34 billion. Both metrics were down low-double digits percentage points year-over-year due primarily to changes in working capital, including higher variable compensation payments and tax related outflows.

Our balance sheet remains very healthy. We closed the year with $3.85 billion in cash and short-term investments against $3.24 billion in total debt, for a net cash position of approximately $610 million. We intend to use $750 million of our cash to redeem the notes maturing in June.

Inventory decreased in the quarter, and inventory turns increased to 12.

Now turning to guidance, starting with fiscal year 2026.

Let me underscore our confidence in our strategy and the strength of our position in addressing key customer priorities, such as data infrastructure modernization, cloud transformation, AI innovation, and cyber resilience. However, as George noted, the macro environment remains uncertain, with both cost and demand related variables that could lower IT spending, and make it challenging to forecast through the remainder of the year.

As a result, we expect fiscal year 2026 total revenue to be in the range of $6.625 to $6.875 billion dollars, which at the $6.75 billion midpoint, reflects 3% growth year-over-year. Excluding the divested Spot business from the compare, our total revenue guidance implies 4% growth year-over-year. Spot generated around $95 million in revenue annually and accounted for a low-teens percentage of Public Cloud segment revenues. As a reminder, we expect the divestiture to impact reported Public Cloud and total revenue growth for fiscal year 2026.

We expect fiscal year 2026 consolidated gross margin to be in the range of 71% to 72%.

We expect operating margin of approximately 28.8% to 29.8%.

We anticipate other income and expenses to be approximately negative $10 million.

For the year, we expect a tax rate in the range of 20% to 21%.

We expect EPS in the range of $7.60 to $7.90, for a midpoint of $7.75.

We expect operating cash flow will move in line with net income as it has done historically.

In fiscal year 2026, we intend to return up to 100% of free cash flow to shareholders in cash dividends and share buybacks. We also expect to reduce share count by low-single digit percentage points year-over-year.

Now turning to Q1 guidance.

We expect revenue to range from $1.455 billion to $1.605 billion, which at the $1.53 billion midpoint implies a decline of -1% year-over-year. Excluding the divested Spot business from the year ago comparison, our revenue guidance implies a 1% growth year-over-year.

We expect Q1 consolidated gross margin to be in the range of 71% to 72% and operating margin to be in the range of 25% to 26%.

EPS is expected to be in the range of $1.48 and $1.58 with a midpoint of $1.53.

In closing, as I look forward to fiscal year 2026, I am confident in our strategy and execution capabilities, as we are well positioned to capture our expanding opportunities, increase profitability and free cash flow, and deliver sustainable long-term value to our shareholders. I'll now turn the call over to Kris for Q&A.

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